
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended **June 30, 2004**

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number 0-10967

FIRST MIDWEST BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-3161078

(IRS Employer Identification No.)

**300 Park Blvd., Suite 400, P.O. Box 459
Itasca, Illinois 60143-9768**

(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: **(630) 875-7450**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes
No .

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes
No .

At August 6, 2004, there were 46,479,078 shares of \$.01 par value common stock outstanding.

FIRST MIDWEST BANCORP, INC.

FORM 10-Q

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST MIDWEST BANCORP, INC. CONSOLIDATED STATEMENTS OF CONDITION

(Dollar amounts in thousands)

	June 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Cash and due from banks	\$ 160,501	\$ 186,900
Federal funds sold and other short-term investments.....	3,320	5,789
Mortgages held for sale	6,055	9,620
Securities available for sale, at market value.....	2,062,707	2,229,650
Securities held to maturity, at amortized cost.....	61,679	67,446
Loans, net of unearned discount.....	4,173,229	4,059,782
Reserve for loan losses	(56,686)	(56,404)
Net loans	4,116,543	4,003,378
Premises, furniture and equipment	91,477	91,535
Accrued interest receivable.....	29,088	30,506
Investment in corporate owned life insurance.....	148,932	146,421
Goodwill.....	84,427	83,735
Other intangible assets.....	13,231	15,533
Other assets	56,325	36,145
Total assets.....	<u>\$ 6,834,285</u>	<u>\$ 6,906,658</u>
Liabilities		
Demand deposits.....	\$ 895,288	\$ 859,080
Savings deposits.....	651,662	629,505
NOW accounts.....	946,888	890,461
Money market deposits.....	762,919	740,009
Time deposits	1,635,845	1,696,053
Total deposits	4,892,602	4,815,108
Borrowed funds.....	1,250,753	1,371,672
Subordinated debt – trust preferred securities	127,547	128,716
Accrued interest payable	6,211	6,828
Other liabilities	50,271	61,794
Total liabilities	<u>6,327,384</u>	<u>6,384,118</u>
Stockholders' equity		
Preferred stock, no par value; 1,000 shares authorized, none issued	-	-
Common stock, \$.01 par value; authorized 100,000 shares; issued 56,927 shares; outstanding: June 30, 2004 – 46,632 shares		
December 31, 2003 – 46,581 shares	569	569
Additional paid-in capital.....	66,760	68,755
Retained earnings	678,342	650,128
Accumulated other comprehensive (loss) income, net of tax.....	(10,543)	32,656
Treasury stock, at cost: June 30, 2004 – 10,295 shares		
December 31, 2003 – 10,346 shares	(228,227)	(229,568)
Total stockholders' equity	<u>506,901</u>	<u>522,540</u>
Total liabilities and stockholders' equity.....	<u>\$ 6,834,285</u>	<u>\$ 6,906,658</u>

See notes to unaudited consolidated financial statements.

FIRST MIDWEST BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME

(Dollar amounts in thousands, except per share data)
(Unaudited)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Interest Income				
Loans	\$ 54,503	\$ 50,719	\$ 109,148	\$ 101,915
Securities available for sale	21,205	21,608	43,200	43,888
Securities held to maturity	639	921	1,288	1,761
Federal funds sold and other short-term investments	198	277	298	526
Total interest income	<u>76,545</u>	<u>73,525</u>	<u>153,934</u>	<u>148,090</u>
Interest Expense				
Deposits	13,556	14,208	27,225	29,377
Borrowed funds	4,949	6,673	9,766	13,928
Subordinated debt-trust preferred securities	1,992	-	4,006	-
Total interest expense	<u>20,497</u>	<u>20,881</u>	<u>40,997</u>	<u>43,305</u>
Net interest income	56,048	52,644	112,937	104,785
Provision for loan losses	<u>2,405</u>	<u>2,540</u>	<u>4,333</u>	<u>5,070</u>
Net interest income after provision for loan losses	<u>53,643</u>	<u>50,104</u>	<u>108,604</u>	<u>99,715</u>
Noninterest Income				
Service charges on deposit accounts	7,041	7,078	13,282	13,359
Trust and investment management fees	3,038	2,768	6,000	5,321
Other service charges, commissions, and fees	3,834	4,265	7,466	7,733
Card-based fees	2,349	2,196	4,495	4,277
Corporate owned life insurance income	1,244	1,226	2,511	2,522
Security gains, net	2,663	3,335	4,602	3,401
(Losses) on early extinguishment of debt	(1,413)	-	(2,653)	-
Other income	351	347	789	2,366
Total noninterest income	<u>19,107</u>	<u>21,215</u>	<u>36,492</u>	<u>38,979</u>
Noninterest Expense				
Salaries and wages	16,041	16,295	32,829	31,594
Retirement and other employee benefits	5,714	5,118	11,042	9,831
Net occupancy expense	3,772	3,633	7,875	7,312
Equipment expense	2,258	1,893	4,500	3,805
Technology and related costs	2,007	2,514	4,042	4,845
Professional services	1,784	1,905	3,535	3,388
Advertising and promotions	1,488	994	2,362	2,800
Other expenses	6,913	5,602	13,997	11,217
Total noninterest expense	<u>39,977</u>	<u>37,954</u>	<u>80,182</u>	<u>74,792</u>
Income before income tax expense	32,773	33,365	64,914	63,902
Income tax expense	8,061	8,718	16,170	16,525
Net income	<u>\$ 24,712</u>	<u>\$ 24,647</u>	<u>\$ 48,744</u>	<u>\$ 47,377</u>
Per Share Data				
Basic earnings per share	\$ 0.53	\$ 0.53	\$ 1.05	\$ 1.01
Diluted earnings per share	\$ 0.53	\$ 0.53	\$ 1.04	\$ 1.01
Cash dividends per share	\$ 0.22	\$ 0.19	\$ 0.44	\$ 0.38
Weighted average shares outstanding	46,577	46,583	46,569	46,779
Weighted average diluted shares outstanding	46,976	46,871	46,964	47,049

See notes to unaudited consolidated financial statements.

FIRST MIDWEST BANCORP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2002	\$ 569	\$ 71,020	\$ 594,192	\$ 39,365	\$ (213,193)	\$ 491,953
Comprehensive Income:						
Net income	-	-	47,377	-	-	47,377
Other comprehensive income: ⁽¹⁾						
Unrealized gains on securities	-	-	-	4,937	-	4,937
Unrealized gains on hedging	-	-	-	264	-	264
Total comprehensive income						52,578
Dividends (\$0.38 per share).....	-	-	(17,721)	-	-	(17,721)
Purchase of treasury stock.....	-	-	-	-	(20,857)	(20,857)
Treasury stock (purchased for) issued to benefit plans	-	(4)	-	-	(76)	(80)
Exercise of stock options.....	-	(1,092)	-	-	3,223	2,131
Balance at June 30, 2003	<u>\$ 569</u>	<u>\$ 69,924</u>	<u>\$ 623,848</u>	<u>\$ 44,566</u>	<u>\$ (230,903)</u>	<u>\$ 508,004</u>
 Balance at December 31, 2003	 \$ 569	 \$ 68,755	 \$ 650,128	 \$ 32,656	 \$ (229,568)	 \$ 522,540
Comprehensive Income:						
Net income	-	-	48,744	-	-	48,744
Other comprehensive (loss) ⁽¹⁾ :						
Unrealized (losses) on securities	-	-	-	(43,696)	-	(43,696)
Unrealized gains on hedging.....	-	-	-	497	-	497
Total comprehensive income						5,545
Dividends declared (\$0.44 per share).....	-	-	(20,530)	-	-	(20,530)
Purchase of treasury stock.....	-	-	-	-	(5,341)	(5,341)
Treasury stock issued to (purchased for) benefit plans	-	(4)	-	-	(107)	(111)
Exercise of stock options.....	-	(1,991)	-	-	6,789	4,798
Balance at June 30, 2004	<u>\$ 569</u>	<u>\$ 66,760</u>	<u>\$ 678,342</u>	<u>\$ (10,543)</u>	<u>\$ (228,227)</u>	<u>\$ 506,901</u>

⁽¹⁾ Net of taxes and reclassification adjustments.

See notes to unaudited consolidated financial statements.

FIRST MIDWEST BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)
(Unaudited)

	Six Months Ended	
	June 30,	
	2004	2003
Operating Activities		
Net income	\$ 48,744	\$ 47,377
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,333	5,070
Depreciation of premises, furniture, and equipment	4,463	4,161
Net amortization of premium on securities	4,139	9,006
Net (gains) on securities	(4,602)	(3,401)
Net losses on early extinguishment of debt.....	2,653	-
Net (gains) on mortgage loan held for sale	(304)	-
Net (gains) on sales of other real estate owned.....	(260)	(112)
Net losses (gains) on sales of premises, furniture, and equipment	102	(477)
Net amortization of discount on subordinated debt.....	(1,169)	-
Tax benefit from exercise of nonqualified stock options.....	936	441
Net decrease (increase) in deferred income taxes	941	(620)
Net amortization of other intangible assets	1,065	-
Originations and purchases of mortgage loans held for sale	(105,045)	(222,370)
Proceeds from sales of mortgage loans held for sale	108,914	221,025
Net (increase) in corporate owned life insurance.....	(2,511)	(2,522)
Net decrease in accrued interest receivable	1,418	361
Net (decrease) in accrued interest payable.....	(617)	(2,361)
Net (increase) in other assets	(5,965)	(5,718)
Net increase in other liabilities	4,804	31,925
Net cash provided by operating activities	62,039	81,785
Investing Activities		
Securities available for sale:		
Proceeds from maturities, repayments, and calls	321,277	582,204
Proceeds from sales.....	269,598	44,099
Purchases.....	(499,087)	(972,219)
Securities held to maturity:		
Proceeds from maturities, repayments, and calls	12,209	13,275
Purchases.....	(6,372)	(34,684)
Net (increase) in loans.....	(119,196)	(97,517)
Proceeds from sales of other real estate owned.....	3,168	2,528
Proceeds from sales of premises, furniture, and equipment.....	7	1,136
Purchases of premises, furniture, and equipment.....	(4,435)	(4,825)
Purchase of bank branch, net of cash.....	-	(19,301)
Net cash (used in) investing activities	(22,831)	(485,304)
Financing Activities		
Net increase in deposit accounts	77,494	354,449
Net (decrease) increase in borrowed funds	(123,572)	75,102
Purchase of treasury stock.....	(5,341)	(20,857)
Cash dividends paid.....	(20,519)	(17,849)
Exercise of stock options	3,862	1,690
Net cash (used in) provided by financing activities	(68,076)	392,535
Net increase (decrease) in cash and cash equivalents.....	(28,868)	(10,984)
Cash and cash equivalents at beginning of period	192,689	206,898
Cash and cash equivalents at end of period.....	\$ 163,821	\$ 195,914

See notes to unaudited consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements of First Midwest Bancorp, Inc. (the "Company"), a Delaware corporation, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States for complete annual financial statements. Accordingly, these financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States and reflect all adjustments (consisting of normal recurring accruals) that are, in the opinion of management, necessary for the fair presentation of the financial position and results of operations for the periods presented. The results of operation for the quarter and six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The consolidated financial statements include the accounts of First Midwest Bancorp, Inc. and its subsidiaries. All material intercompany transactions and balances have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the current presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2003, the Financial Accounting Standards Board ("FASB") revised and reissued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R"), which provides guidance on how to identify a variable interest entity ("VIE"), certain of which are also referred to as special purpose entities ("SPEs"), and determine when the assets, liabilities, noncontrolling interest, and results of operations of a VIE need to be included in a company's consolidated financial statements. VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46R requires VIEs to be consolidated by the primary beneficiary which represents the company that will absorb a majority of the VIE's expected losses if they occur, receive a majority of the VIE's expected residual returns if they occur or both. FIN 46R also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The revised interpretation resulted in multiple effective dates based on the nature as well as the creation date of the VIE. The provisions of FIN 46R were effective December 31, 2003 for public entities that have interests in SPEs and effective March 31, 2004 for interests in all other types of VIEs. As permitted, the Company early adopted all provisions of FIN 46R on December 31, 2003. The adoption of FIN 46R did not have a material impact on the Company's results of operations, financial position, or liquidity. The required disclosures related to the Company's interest in VIEs are included in Note 12, "Variable Interest Entities," commencing on page 13 of this Form 10-Q.

In December 2003, the FASB revised and reissued Statement No. 132, "Employers' Disclosures about Pension and Other Postretirement Benefits" ("SFAS No. 132R"), which expands upon the existing disclosure requirements contained in the original statement to require additional disclosure about plan assets, obligations, cash flows and net periodic benefit cost of defined pension plans and other defined postretirement plans. Additionally, SFAS No. 132R requires interim period disclosure of the components of net periodic pension cost and contributions if significantly different from previously reported amounts in interim period financial statements beginning after December 31, 2003. The revised statement was effective for financial statements with fiscal years ending after December 15, 2003. The Company adopted SFAS No. 132R on December 31, 2003, and its required disclosures for interim period financial statements are located in Note 9, "Pension Plan," on page 12 of this Form 10-Q.

In December 2003, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued AICPA Statement of Position No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" ("SOP 03-3"). SOP 03-3 was issued to address accounting for differences between the contractual cash flows and the cash flows expected to be collected of certain loans and debt securities (structured as loans) when acquired in a transfer, if those differences are attributable, at least in part, to credit quality. As such, SOP 03-3 applies to such loans and debt securities acquired in purchase business combinations and does not apply to originated loans. The application of SOP 03-3 could reduce the interest income that is recognized for certain loans and debt securities by requiring that acquired loans and debt securities be recorded at their fair value defined as the present value of future cash flows net of expected credit losses. As a result, an allowance for loan losses would not be recognized at acquisition. Subsequent to the initial acquisition, increases in expected cash flows generally would be recognized prospectively through adjustment of the yield on the loan or debt security over its remaining life. Decreases in expected cash flows would be recognized as impairment. SOP 03-3 is

effective for loans and debt securities acquired in fiscal years beginning after December 15, 2004, with early application encouraged. The Company will continue to evaluate the applicability of this SOP for prospective acquisitions.

3. ACQUISITION AND DIVESTITURE ACTIVITY

On November 17, 2003, the Company completed the sale of two retail branch offices in Streator, Illinois, which included \$69.1 million of deposits and other liabilities, \$11.3 million of loans, and \$500,000 of premises and equipment. The Company received a deposit premium of 7%, or \$4.9 million. The pre-tax gain from the sale was \$4.6 million, net of associated costs, and was reflected in other noninterest income.

On December 31, 2003, the Company completed the acquisition of CoVest Bancshares, Inc. (the "CoVest Acquisition"), a single bank holding company, in a cash transaction valued at \$27.45 per CoVest share, or approximately \$102.2 million in the aggregate. CoVest provided retail and commercial banking services to customers through three full service locations in the northwest suburbs of Chicago, Illinois. The transaction, which was accounted for under the purchase method of accounting, included the recognition of \$12.9 million of identifiable intangible assets to be amortized over a weighted average life of 7.1 years and the excess of purchase price over the fair value of identifiable net assets ("goodwill") of \$49.6 million. The goodwill and other intangible assets resulting from this transaction are not deductible for income tax purposes.

In connection with the CoVest Acquisition, the Company accrued \$6.0 million for direct merger-related costs, which was included in the purchase price of the transaction and in the determination of goodwill. The merger-related charges consisted of \$4.6 million in employee severance and benefit-related costs, \$583,000 in contract termination costs, and \$777,000 in professional fees. During the first six months of 2004, cash payments totaled \$4.0 million and noncash accrual adjustments totaled \$378,000. The noncash accrual adjustments were offset to goodwill and were associated with reduced contract termination fees and severance payments. As of June 30, 2004, the Company had approximately \$1.6 million remaining in the accrual for direct merger-related costs.

In addition to the direct merger-related charges, the Company incurred \$650,000 during first quarter 2004 related to integrating CoVest operations into the Company, including salaries, retention bonuses, customer product transition brochures, and various system conversion costs.

4. SECURITIES

The aggregate amortized cost, gross unrealized gains and losses, and market value of securities were as follows.

	June 30, 2004				December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Losses	Market Value	Amortized Cost	Gross Unrealized Gains	Losses	Market Value
(Dollar amounts in thousands)								
Securities Available for Sale								
U.S. Agency	\$ 124,864	\$ 15	\$ (354)	\$ 124,525	\$ 219,406	\$ -	\$ (2)	\$ 219,404
Collateralized mortgage obligations.....	828,951	1,822	(15,736)	815,037	901,998	6,175	(5,952)	902,221
Other mortgage backed	313,359	3,027	(5,774)	310,612	255,586	6,142	(266)	261,462
State and municipal	685,354	14,807	(9,499)	690,662	706,741	53,832	(793)	759,780
Other.....	127,741	38	(5,908)	121,871	91,848	35	(5,100)	86,783
Total	<u>\$ 2,080,269</u>	<u>\$ 19,709</u>	<u>\$ (37,271)</u>	<u>\$ 2,062,707</u>	<u>\$ 2,175,579</u>	<u>\$ 66,184</u>	<u>\$ (12,113)</u>	<u>\$ 2,229,650</u>
Securities Held to Maturity								
U.S. Treasury	\$ 1,026	\$ -	\$ -	\$ 1,026	\$ 1,376	\$ 1	\$ -	\$ 1,377
U.S. Agency	523	-	-	523	176	-	-	176
State and municipal	60,130	48	-	60,178	65,894	67	-	65,961
Total.....	<u>\$ 61,769</u>	<u>\$ 48</u>	<u>\$ -</u>	<u>\$ 61,727</u>	<u>\$ 67,446</u>	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ 67,514</u>

For additional details of the securities available for sale portfolio and the related impact of unrealized gains/(losses) thereon, see Note 8, "Comprehensive Income," commencing on page 10 of this Form 10-Q.

5. LOANS

Total loans, net of deferred loan fees and other discounts of \$4.1 million at June 30, 2004 and \$3.2 million at December 31, 2003 were as follows.

	June 31, 2004	December 31, 2003
	(Dollar amounts in thousands)	
Commercial and industrial.....	\$ 1,113,493	\$ 1,052,117
Agricultural	101,062	94,983
Real estate – commercial	1,440,770	1,393,420
Real estate – construction.....	448,454	453,429
Consumer.....	907,183	895,588
Real estate – 1-4 family	162,267	170,245
	<u>\$ 4,173,229</u>	<u>\$ 4,059,782</u>
Total loans, net of unearned discount	<u>\$ 4,173,229</u>	<u>\$ 4,059,782</u>

The Company primarily lends to consumers and small to mid-sized businesses in the market areas in which the Company operates. Within these areas, the Company diversifies its loan portfolio by loan type, industry, and borrower. Management believes that such diversification reduces the exposure to economic downturns that may occur in different segments of the economy or in different industries. As of June 30, 2004 and December 31, 2003, there were no significant loan concentrations with any single borrower, industry, or geographic segment.

It is the Company's policy to review each prospective credit in order to determine the appropriateness and, when required, the adequacy of security or collateral to obtain prior to making a loan. In the event of borrower default, the Company seeks restitution through adherence to state lending laws and the Company's lending standards and credit monitoring procedures.

6. RESERVE FOR LOANS LOSSES AND IMPAIRED LOANS

Reserve For Loan Losses

A summary of the transactions in the reserve for loan losses for the quarters and six months ended June 30, 2004 and 2003 are summarized below.

	Quarters Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Dollar amounts in thousands)			
Balance at beginning of period	\$ 56,628	\$ 48,020	\$ 56,404	\$ 47,929
Loans charged-off.....	(2,977)	(2,460)	(5,350)	(5,399)
Recoveries of loans previously charged-off.....	600	1,024	1,299	1,524
Net loans charged-off	(2,347)	(1,436)	(4,051)	(3,875)
Provision for loan losses	2,405	2,540	4,333	5,070
Balance at end of period.....	<u>\$ 56,686</u>	<u>\$ 49,124</u>	<u>\$ 56,686</u>	<u>\$ 49,124</u>

The reserve for loan losses of \$56.7 million at June 30, 2004 was \$7.6 million higher than the reserve for loan losses at June 30, 2003, with the increase primarily resulting from the CoVest Acquisition.

Impaired Loans

A portion of the Company's reserve for loan losses is allocated to loans deemed impaired. All impaired loans are included in nonperforming assets. A summary of these loans and their related reserve for loan losses is as follows.

	June 30, 2004	December 31, 2003
	(Dollar amounts in thousands)	
Impaired Loans:		
With valuation reserve required ⁽¹⁾	\$ 12,252	\$ 12,230
With no valuation reserve required	8,647	7,508
Total impaired loans.....	<u>\$ 20,899</u>	<u>\$ 19,738</u>
Valuation reserve related to impaired loans.....	\$ 7,063	\$ 4,167

⁽¹⁾ These impaired loans require a valuation reserve because the value of the loans is less than the recorded investment in the loans.

The average recorded investment in impaired loans was \$17.7 million for the six months ended June 30, 2004 and \$12.2 million for the six months ended June 30, 2003. Interest income recognized on impaired loans for the six months ended June 30, 2004 and 2003 was \$86,000 and \$117,000, respectively.

7. EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per share for the quarters and six months ended June 30, 2004 and 2003.

	Quarters Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Amounts in thousands, except per share data)			
Basic Earnings per Share:				
Net income	\$ 24,712	\$ 24,647	\$ 48,744	\$ 47,377
Average common shares outstanding	46,577	46,583	46,569	46,779
Basic earnings per share.....	\$ 0.53	\$ 0.53	\$ 1.05	\$ 1.01
Diluted Earnings per Share:				
Net income	\$ 24,712	\$ 24,647	\$ 48,744	\$ 47,377
Average common shares outstanding	46,577	46,583	46,569	46,779
Dilutive effect of stock options.....	399	288	395	270
Diluted average common shares outstanding.....	<u>46,976</u>	<u>46,871</u>	<u>46,964</u>	<u>47,049</u>
Diluted earnings per share	\$ 0.53	\$ 0.53	\$ 1.04	\$ 1.01

8. COMPREHENSIVE INCOME

Comprehensive income includes net income as well as certain items that are reported directly within a separate component of stockholders' equity that are not considered part of net income. Currently, the Company's components of other comprehensive income are the unrealized gains (losses) on securities available for sale and on certain derivatives. The related before and after tax amounts are as follows.

	Quarters Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Dollar amounts in thousands)			
Unrealized holding (losses) gains on available for sale securities arising during the period:				
Unrealized net (losses) gains.....	\$ (53,264)	\$ 5,701	\$ (67,120)	\$ 11,496
Related tax (benefit) expense.....	(20,773)	2,224	(26,177)	4,485
Net.....	(32,491)	3,477	(40,943)	7,011
Less: Reclassification adjustment for net gains realized for the period:				
Realized net gains on sales of available for sale securities	2,663	3,335	4,514	3,401
Related tax expense	1,039	1,301	1,761	1,327
Net.....	1,624	2,034	2,753	2,074
Net unrealized holding (losses) gains on available for sale securities.....	(34,115)	1,443	(43,696)	4,937
Unrealized holding gains (losses) on derivatives used in cash flow hedging relationships arising during the period:				
Unrealized net gains (losses).....	871	(279)	383	(224)
Related tax expense (benefit)	340	(110)	150	(88)
Net.....	531	(169)	233	(136)
Less: Amounts reclassified to interest expense:				
Realized net (losses) on cash flow hedges.....	(217)	(87)	(433)	(656)
Related tax (benefit).....	(85)	(34)	(169)	(256)
Net.....	(132)	(53)	(264)	(400)
Net unrealized holding gains (losses) on derivatives used in cash flow hedging relationships.....	663	(116)	497	264
Total other comprehensive income	\$ (33,452)	\$ 1,327	\$ (43,199)	\$ 5,201

Activity in accumulated other comprehensive income (loss), net of tax, for the six months ended June 30, 2004 and 2003 was as follows.

	Accumulated Unrealized Gains on Securities Available for	Accumulated Unrealized (Losses) on Hedging Activities	Accumulated Other Comprehensive Income (Loss)
	(Dollar amounts in thousands)		
Balance, December 31, 2002	\$ 40,013	\$ (648)	\$ 39,365
Current period change.....	4,937	264	5,201
Balance, June 30, 2003.....	\$ 44,950	\$ (384)	\$ 44,566
Balance, December 31, 2003	\$ 32,984	\$ (328)	\$ 32,656
Current period change.....	(43,696)	497	(43,199)
Balance, June 30, 2004.....	\$ (10,712)	\$ 169	\$ (10,543)

9. PENSION PLAN

Pursuant to the disclosure requirements of SFAS 132R, the following table presents the components of the Company's Pension Plan net periodic benefit pension expense for the quarters and six months ended June 30, 2004 and 2003. For further discussion of SFAS 132R, see Note 2, "Recent Accounting Pronouncements," commencing on page 7 of this Form 10-Q.

	Quarters Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(Dollar amounts in thousands)			
Components of net periodic benefit cost:				
Service cost.....	\$ 1,005	\$ 748	\$ 2,010	\$ 1,496
Interest cost.....	541	402	1,081	804
Expected return on plan assets.....	(628)	(479)	(1,255)	(958)
Recognized net actuarial loss.....	188	80	376	160
Amortization of prior service cost.....	2	2	4	4
Net periodic cost.....	<u>\$ 1,108</u>	<u>\$ 753</u>	<u>\$ 2,216</u>	<u>\$ 1,506</u>

10. STOCK-BASED COMPENSATION

The Company's stock-based compensation plans are accounted for based on the intrinsic value method set forth in Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations. Under APB 25, no compensation expense is recognized, as the exercise price of the Company's stock options is equal to the fair market value of its common stock on the date of the grant.

Pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," disclosure requirements, pro forma net income, and earnings per share are presented in the following table as if compensation cost for stock options, net of related tax effects, was determined under the fair value method and amortized to expense over the options' vesting periods.

	Quarters ended June 30,		Six Months ended June 30,	
	2004	2003	2004	2003
	(Dollar amounts in thousands, except per share data)			
Net income, as reported.....	\$ 24,712	\$ 24,647	\$ 48,744	\$ 47,377
Less: pro forma expense related to options, net of tax.....	318	417	638	819
Pro forma net income	<u>\$ 24,394</u>	<u>\$ 24,230</u>	<u>\$ 48,106</u>	<u>\$ 46,558</u>
Basic Earnings Per Share:				
As reported.....	\$ 0.53	\$ 0.53	\$ 1.05	\$ 1.01
Pro forma	\$ 0.52	\$ 0.52	\$ 1.03	\$ 1.00
Diluted Earnings Per Share:				
As reported.....	\$ 0.53	\$ 0.53	\$ 1.04	\$ 1.01
Pro forma	\$ 0.52	\$ 0.52	\$ 1.02	\$ 0.99

The fair value of stock options granted was estimated at the date of grant using a Black-Scholes option-pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Option valuation models such as the Black-Scholes require the input of highly subjective assumptions including the expected stock price volatility. The Company's stock options have characteristics significantly different from traded options. Because changes in these assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

11. COMMITMENTS, GUARANTEES, AND CONTINGENT LIABILITIES

Credit Extension Commitments and Guarantees

In the normal course of business, the Company enters into a variety of financial instruments with off-balance sheet risk to meet the financing needs of its customers, to reduce its exposure to fluctuations in interest rates and to conduct lending activities. These instruments principally include commitments to extend credit, standby letters of credit, and commercial letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statements of Condition. The contractual or notional amounts of these financial instruments at June 30, 2004 and December 31, 2003 were as follows.

	June 30, 2004	December 31, 2003
Commitments to extend credit:	(Dollar amounts in thousands)	
Home equity lines	\$ 278,158	\$ 252,892
All other commitments	1,038,288	913,517
Letters of credit:		
Standby	120,828	105,709
Commercial.....	1,941	755

Commitments to extend credit are agreements to lend funds to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses, have variable interest rates tied to prime rate, and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash-flow requirements.

Standby and commercial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally are contingent upon the failure of the customer to perform according to the terms of the underlying contract with the third party and are most often issued in favor of a municipality where construction is taking place to ensure that the borrower adequately completes the construction. Commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party. This type of letter of credit is typically issued on behalf of a customer who is generally involved in an international business activity such as the importing of goods.

In the event of a customer's nonperformance, the Company's credit loss exposure is represented by the contractual amount of those commitments. The credit risk is essentially the same as that involved in extending loans to customers and is subject to normal credit policies. The Company uses the same credit policies in making credit commitments as it does for on-balance sheet instruments, with such exposure to credit loss minimized due to various collateral requirements in place.

The maximum potential future payments guaranteed by the Company under standby letters of credit arrangements is represented by the contractual amount of the commitment. As of June 30, 2004, the carrying value of the Company's standby letters of credit, which is included in other liabilities in the Consolidated Statements of Condition, totaled \$571,000. As of June 30, 2004, standby letters of credit had a remaining weighted average term of 18.6 months, with remaining actual lives ranging from less than 1 year to 11.4 years. If a commitment is funded, the Company may seek recourse through the underlying collateral provided including real estate, physical plant and property, marketable securities, or cash.

Legal Proceedings

As of June 30, 2004, there were certain legal proceedings pending against the Company and its subsidiaries in the ordinary course of business. The Company does not believe that liabilities, individually or in the aggregate, arising from these proceedings, if any, would have a material adverse effect on the consolidated financial condition of the Company as of June 30, 2004.

12. VARIABLE INTEREST ENTITIES

A variable interest entity ("VIE") is a partnership, limited liability company, trust, or other legal entity that does not have sufficient equity to permit it to finance its activities without additional subordinated financial support from other parties or whose investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics are: (i) the direct or indirect ability to make decisions about an entity's activities through voting rights or similar rights; (ii)

the obligation to absorb the expected losses of an entity if they occur; and (iii) the right to receive the expected residual returns of the entity, if they occur.

FIN 46R addresses the consolidation of VIEs. This interpretation is summarized in Note 2, "Recent Accounting Pronouncements," commencing on page 7 of this Form 10-Q. Under FIN 46R, VIEs are consolidated by the party who is exposed to a majority of the VIE's expected losses and/or residual returns (i.e., the primary beneficiary). Effective December 31, 2003, the Company adopted the provisions of FIN 46R for all interests held in a VIE. The following summarizes the VIEs in which the Company has a significant interest and discusses the accounting changes that resulted from the adoption of FIN 46R.

The Company owns 100% of the common stock of a business trust that was formed in November 2003 to issue trust preferred securities to third party investors. The trust's only assets as of June 30, 2004 were the \$128.7 million principal balance of the debentures issued by the Company, and the related interest receivable of \$746,000, which were acquired by the trust using proceeds from the issuance of preferred securities and common stock. The trust meets the FIN 46R definition of a VIE, but the Company is not the primary beneficiary of the trust. Accordingly, the trust is not consolidated in the Company's financial statements and is accounted for using the equity method. The subordinated debentures issued by the Company to the trust are reflected in the Company's Consolidated Statement of Condition as "Subordinated debt - trust preferred securities."

As a part of the CoVest Acquisition, the Company acquired interests in 20 trust preferred capital security issuances. Although these investments meet the FIN 46R definition of a VIE, the Company is not the primary beneficiary. The Company accounts for its interest in these investments as available for sale securities. The Company's maximum exposure to loss is limited to its investment in these VIE, which at June 30, 2004 had a total book and market value of \$1.8 million.

The Company has a significant limited partner interest in 12 low-income housing tax credit partnerships and limited liability corporations, which were acquired at various times from 1997 to 2004. These entities meet the FIN 46R definition of a VIE. Since the Company is not the primary beneficiary of the entities, it will continue to account for its interest in these partnerships on the cost method. Exposure to loss as a result of its involvement with these entities is limited to the \$5.2 million book basis of the Company's investment, which included unfunded commitments of \$4.0 million to make future investments.

13. SUPPLEMENTARY CASH FLOW INFORMATION

Supplemental disclosures to the Consolidated Statements of Cash Flows for the six months ended June 30, 2004 and 2003 are as follows.

	Six Months Ended June 30,	
	2004	2003
(Dollar amounts in thousands)		
Income taxes paid.....	\$ 10,678	\$ 15,697
Interest paid to depositors and creditors.....	41,614	45,484
Noncash transfers of loans to foreclosed real estate	1,698	1,496
Dividends declared but unpaid.....	10,275	8,854

14. SUBSEQUENT EVENTS

On July 9, 2004, the Company announced that its subsidiary bank, First Midwest Bank (the "Bank"), entered into an agreement with the Federal Reserve Bank of Chicago and the Illinois Office of Banks and Real Estate to enhance its compliance with all applicable federal and state laws, rules, and regulations relating to anti-money laundering policies and procedures. The Bank has agreed to prepare a written compliance plan as well as complete a compliance review of certain customer transactions since the date of the last prior satisfactory regulatory review. Based upon the work accomplished prior to the signing of the agreement, the Company believes that it can meet the remediation timeframes enumerated in the written agreement. The Company further believes that complying with the agreement will have no material impact on its financial condition, liquidity, capital resources, or operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion presented below provides an analysis of the Company's results of operations and financial condition for the quarters and six months ended June 30, 2004 and 2003. Management's discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes presented elsewhere in this report, as well as the Company's 2003 Annual Report on Form 10-K. Results of operations for the quarters and six months ended June 30, 2004 are not necessarily indicative of results to be expected for the year ending December 31, 2004. Unless otherwise stated, all earnings per share data included in this section and throughout the remainder of this discussion are presented on a diluted basis.

FORWARD LOOKING STATEMENTS

Statement under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995: The Company and its representatives may, from time to time, make written or oral statements that are "forward-looking" and provide information other than historical information, including statements contained in the Form 10-Q, the Company's other filings with the Securities and Exchange Commission, or in communications to its stockholders. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results to be materially different from any results, levels of activity, performance, or achievements expressed or implied by any forward-looking statement. These factors include, among other things, the factors listed below.

In some cases, the Company has identified forward-looking statements by such words or phrases as "will likely result," "is confident that," "expects," "should," "could," "may," "will continue to," "believes," "anticipates," "predicts," "forecasts," "estimates," "projects," "potential," "intends," or similar expressions identifying "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including the negative of those words and phrases. These forward-looking statements are based on management's current views and assumptions regarding future events, future business conditions, and the outlook for the Company based on currently available information. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is hereby identifying important factors that could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any forward-looking statements.

Among the factors that could have an impact on the Company's ability to achieve operating results, growth plan goals, and the beliefs expressed or implied in forward-looking statements are:

- Management's ability to reduce and effectively manage interest rate risk and the impact of interest rates in general on the volatility of the Company's net interest income;
- Fluctuations in the value of the Company's investment securities;
- The ability to attract and retain senior management experienced in banking and financial services;
- The sufficiency of allowances for loan losses to absorb the amount of actual losses inherent in the existing portfolio of loans;
- The Company's ability to adapt successfully to technological changes to compete effectively in the marketplace;
- Credit risks and risks from concentrations (by geographic area and by industry) within the Bank's loan portfolio;
- The effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds, and other financial institutions operating in the Company's market or elsewhere or providing similar services;
- The failure of assumptions underlying the establishment of allowances for loan losses and estimation of values of collateral and various financial assets and liabilities;
- Volatility of rate-sensitive deposits;
- Operational risks, including data processing system failures or fraud;
- Asset/liability matching risks and liquidity risks;
- Changes in the economic environment, competition, or other factors that may influence the anticipated growth rate of loans and deposits, the quality of the loan portfolio and loan and deposit pricing, and the Company's ability to successfully pursue acquisition and expansion strategies and integrate any acquired companies;

- The impact from liabilities arising from legal or administrative proceedings on the financial condition of the Company;
- Governmental monetary and fiscal policies, as well as legislative and regulatory changes, that may result in the imposition of costs and constraints on the Company through higher FDIC insurance premiums, significant fluctuations in market interest rates, increases in capital requirements, changes in tax laws, and operational limitations;
- Changes in general economic or industry conditions, nationally or in the communities in which the Company conducts business;
- Changes in accounting principles, policies, or guidelines affecting the businesses conducted by the Company;
- Acts of war or terrorism; and
- Other economic, competitive, governmental, regulatory, and technical factors affecting the Company's operations, products, services, and prices.

The foregoing list of important factors may not be all-inclusive, and the Company specifically declines to undertake any obligation to publicly revise any forward-looking statements that have been made to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

With respect to forward-looking statements set forth in the notes to consolidated financial statements, including those relating to contingent liabilities and legal proceedings, as well as the Company's 2003 Annual Report on Form 10-K, some of the factors that could affect the ultimate disposition of those contingencies are changes in applicable laws, the development of facts in individual cases, settlement opportunities, and the actions of plaintiffs, judges and juries.

The following information should be read in conjunction with the consolidated financial statements of the Company and its subsidiaries and notes thereto, appearing elsewhere in this report.

CRITICAL ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and are consistent with predominant practices in the financial services industry. Application of critical accounting policies, those policies that management believes are the most important to the Company's financial position and results of operations, requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes and are based on information available as of the date of the financial statements. Future changes in information may affect these estimates, assumptions, and judgments, which, in turn, may affect amounts reported in the financial statements.

The Company has numerous accounting policies, of which the most significant are presented in Note 1, "Summary of Significant Accounting Policies," commencing on page 47 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has determined that its accounting policies with respect to the reserve for loan losses and income taxes are the accounting areas requiring subjective or complex judgments that are most important to the Company's financial position and results of operations, and, as such, are considered to be critical accounting policies. A discussion of these policies is included in Notes 1 and 15 commencing on pages 47 and 66, respectively, of the Company's Annual Report on Form 10-K for the year ended December 31, 2003. There have been no significant changes in the application of accounting policies since December 31, 2003.

PERFORMANCE OVERVIEW

The Company's net income for the quarter ended June 30, 2004 totaled \$24.7 million, or \$0.53 per diluted share, as compared to \$24.6 million, or \$0.53 per diluted share, for second quarter 2003. The Company's annualized return on average stockholders' equity was 19.2% for second quarter 2004 as compared to 19.4% for second quarter 2003, and its annualized return on average assets was 1.44% for second quarter 2004 as compared to 1.53% for second quarter 2003.

For the first six months of 2004, net income increased to a record \$48.7 million, or \$1.04 per diluted share, from 2003's \$47.4 million, or \$1.01 per diluted share, representing an increase of 3.0% on a per diluted share basis. The Company's financial performance for the first six months of 2004 resulted in an annualized return on average equity of 18.6% as

compared to 18.9% for the same period in 2003 and an annualized return on average assets of 1.43% for the 2004 period compared to 1.56% for the 2003 period.

In comparison to second quarter 2003, second quarter 2004's results reflected higher tax equivalent net interest income, lower net charge-offs, and continued tight control of operating costs. These were largely offset by the comparatively lower net gains realized from sales of securities and losses on early extinguishment of debt occurring in second quarter 2004. The Company's higher level of net interest income in 2004 was fueled by earning asset growth, the result of the acquisition of CoVest Bancshares, Inc. on December 31, 2003 (the "CoVest Acquisition") and continued corporate loan growth. The integration of CoVest into First Midwest's operation and data processing systems has been fully completed, and all anticipated cost reductions have been fully realized.

Continuing loan growth and increasing interest rates are expected to improve the Company's earnings by increasing the yields on commercial lending portfolios and slowing prepayments on mortgage-backed securities. In 2003 and early 2004, the Company's decisions to reinvest cash flows and extend liabilities were influenced by its concerns as to the timing and pace of rising interest rates. During the second half of 2004, the volatility expected in the changing interest rate markets may allow the Company to pursue alternative strategies. In such a changing environment and depending upon management's assessment of the future course of interest rates, the Company may pursue alternative balance sheet strategies to improve its long-term performance, such as the potential redeployment of assets into longer-duration instruments.

EARNINGS PERFORMANCE

Net Interest Income/Margin

Net interest income is the difference between interest income on earning assets, such as loans and investment securities, and interest expense on liabilities that are used to fund those assets, such as deposits and other borrowed funds. The level of interest rates and the volume and mix of interest-earning assets and interest-bearing liabilities impact net interest income. Net interest margin represents net interest income as a percentage of total interest-earning assets. The accounting policies underlying the recognition of interest income on loans, securities, and other earning assets are included in the "Notes to Consolidated Financial Statements" contained in the Company's 2003 Annual Report on Form 10-K.

For purposes of this discussion, both net interest income and margin have been adjusted to a fully tax equivalent basis to more appropriately compare the returns on certain tax-exempt loans and securities to those on taxable earning assets. The effect of such adjustment is presented in the following table.

Table 1
Effect of Tax Equivalent Adjustment
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net Income Interest.....	\$ 56,048	\$ 52,644	\$ 112,937	\$ 104,785
Tax equivalent adjustment.....	4,608	4,400	9,272	8,322
Tax equivalent net interest income.....	\$ 60,656	\$ 57,044	\$ 122,209	\$ 113,107

As shown in the Net Interest Income and Margin Analysis on page 19, tax equivalent net interest income increased \$3.6 million for second quarter 2004 from second quarter 2003, primarily as the result of a \$666.9 million increase in average interest-earning assets that increased tax equivalent interest income. Of the increase, \$563.6 million represents average interest-earning assets obtained from the CoVest Acquisition, and the remainder is primarily due to continued corporate loan growth. The benefits derived from higher interest-earning assets were offset by a decline in loan yields resulting from assets repricing in the low rate environment and competitive pricing on new and refinanced loans.

The \$384,000 decrease in interest expense resulted from interest-bearing liabilities, primarily time deposits, repricing in the low rate environment and the comparative benefits realized in 2004 from extinguishing certain higher-cost Federal Home Loan Bank advances over the course of 2003 and 2004 and redeploying such borrowings at lower interest rates. These benefits were offset by the cost of the \$125 million in subordinated debt - trust preferred securities issued at a fixed costs of 6.95% in November 2003 to fund the CoVest Acquisition. Interest expense for second quarter 2004 was also impacted by an

increase in average interest-bearing liabilities of \$498.8 million, excluding subordinated debt - trust preferred securities. This increase resulted from 2003 acquisition and divestiture activity, including the CoVest Acquisition.

The Company's net interest margin for second quarter 2004 decreased 20 basis points to 3.81% as compared to 4.01% for second quarter 2003. This decrease resulted primarily from the repricing of loans more quickly than interest-bearing liabilities in the low rate environment and the November 2003 issuance of subordinated debt - trust preferred securities. This impact was offset by the benefit to 2004's net interest margin that resulted from extinguishing certain Federal Home Loan Bank advances and redeploying such borrowings at lower interest rates over the course of 2003. The CoVest Acquisition did not significantly impact net interest margin for the quarter as the respective yields and costs of the interest-earning assets and interest-bearing liabilities acquired approximated those of the Company prior to the acquisition.

Second quarter 2004 net interest margin of 3.81% was 16 basis points lower than first quarter 2004 net interest margin of 3.97%. This decline was due to a 19 basis point reduction in yield on interest-earning assets to 5.10%, partly offset by a 4 basis point decline in the rates paid on interest-bearing liabilities to 1.50%. The margin contraction from first to second quarter 2004 resulted from continued repricing of earning assets in the low rate environment and the impact of increased prepayments on mortgage-backed securities. As the market continues to transition to a higher interest rate environment, interest margin is expected to stay relatively stable over the remainder of 2004. While floating-rate assets will produce improved yields in a higher rate environment, both the reinvestment of cash flows and acquisition of assets in the low rate environment will offset this improvement. Further, management anticipates paying a higher cost for liabilities as it looks to fund increasing loan growth as well as attract and retain longer-term deposits.

The Company continues to use multiple interest rate scenarios to rigorously assess the direction and magnitude of changes in net interest income. A description and analysis of the Company's market risk and interest rate sensitivity profile and management policies commences on page 30 of this Form 10-Q.

Tables 2 and 3 on the following pages summarize the changes in average interest-earning assets and interest-bearing liabilities as well as the average rates earned and paid on these assets and liabilities, respectively, for the quarters and six months ended June 30, 2004 and 2003. The tables also detail increases and decreases in income and expense for each major category of assets and liabilities and analyze the extent to which such variances are attributable to volume and rate changes. Interest income and yields are presented on a tax-equivalent basis assuming a federal income tax rate of 35%, which includes a tax-equivalent adjustment of \$4.6 million and \$4.4 million for the quarters ended June 30, 2004 and 2003, respectively and \$9.3 million and \$8.3 million for the six months ended June 30, 2004 and 2003, respectively.

Table 2
Net Interest Income and Margin Analysis
(Dollar amounts in thousands)

	Quarters Ended June 30, 2004 and 2003											
	Average Balances			Average Interest Rates Earned/Paid			Interest Income/Expense			Increase/(Decrease) in Interest Income/Expense Due to:		
	2004	2003	Increase (Decrease)	2004	2003	Basis Points Inc/(Dec)	2004	2003	Increase (Decrease)	Volume	Rate	Total
Federal funds sold and other short-term investments	\$ 43,274	\$ 14,253	\$ 29,021	0.97%	1.26%	(0.29)%	\$ 105	\$ 45	\$ 60	\$ 67	\$ (7)	\$ 60
Mortgages held for sale	7,759	16,476	(8,717)	4.79%	5.63%	(0.84)%	93	232	(139)	(108)	(31)	(139)
Securities available for sale ..	2,087,772	2,114,559	(26,787)	4.86%	4.82%	0.04%	25,357	25,460	(103)	(329)	226	(103)
Securities held to maturity ...	67,638	84,908	(17,270)	5.83%	6.46%	(0.63)%	986	1,371	(385)	(261)	(124)	(385)
Loans net of unearned discount:												
Commercial and industrial.	1,102,389	967,493	134,896	4.84%	5.46%	(0.62)%	13,347	13,199	148	767	(619)	148
Agricultural	100,901	81,804	19,097	3.89%	4.86%	(0.97)%	981	993	(12)	(82)	70	(12)
Real estate – commercial ...	1,453,499	1,012,930	440,569	5.58%	6.14%	(0.56)%	20,270	15,551	4,719	5,979	(1,260)	4,719
Real estate – construction ..	441,212	378,752	62,460	4.80%	5.13%	(0.33)%	5,292	4,856	436	716	(280)	436
Consumer	894,965	896,363	(1,398)	5.53%	6.34%	(0.81)%	12,371	14,210	(1,839)	(22)	(1,817)	(1,839)
Real estate – 1-4 family	161,784	126,775	35,009	5.81%	6.34%	(0.53)%	2,351	2,008	343	489	(146)	343
Total loans	4,154,750	3,464,117	690,633	5.26%	5.87%	0.61%	54,612	50,817	3,795	7,847	(4,052)	3,795
Total interest-earning assets ..	<u>\$ 6,361,193</u>	<u>\$ 5,694,313</u>	<u>\$ 666,880</u>	<u>5.10%</u>	<u>5.47%</u>	<u>(0.37)%</u>	<u>\$ 81,153</u>	<u>\$ 77,925</u>	<u>\$ 3,228</u>	<u>\$ 7,216</u>	<u>\$ (3,988)</u>	<u>\$ 3,228</u>
Savings deposits	\$ 655,872	\$ 499,735	\$ 156,137	0.66%	0.50%	0.16%	\$ 1,084	\$ 622	\$ 462	\$ 225	\$ 237	\$ 462
NOW accounts	952,986	781,923	171,063	0.74%	0.86%	(0.12)%	1,762	1,680	82	225	(143)	82
Money market deposits	737,458	588,490	148,968	1.14%	1.24%	(0.10)%	2,093	1,830	263	402	(139)	263
Time deposits	1,691,628	1,631,118	60,510	2.04%	2.47%	(0.43)%	8,617	10,076	(1,459)	392	(1,851)	(1,459)
Borrowed funds	1,294,370	1,332,278	(37,908)	1.53%	2.00%	(0.47)%	4,949	6,673	(1,724)	(185)	(1,539)	(1,724)
Subordinated debt - trust preferred securities	128,271	-	128,271	6.21%	-	6.21%	1,992	-	1,992	1,992	-	1,992
Total interest-bearing liabilities	<u>\$ 5,460,585</u>	<u>\$ 4,833,544</u>	<u>\$ 627,041</u>	<u>1.50%</u>	<u>1.73%</u>	<u>(0.23)%</u>	<u>\$ 20,497</u>	<u>\$ 20,881</u>	<u>\$ (384)</u>	<u>\$ 3,051</u>	<u>\$ (3,435)</u>	<u>\$ (384)</u>
Net interest margin / income				<u>3.81%</u>	<u>4.01%</u>	<u>(0.20)%</u>	<u>\$ 60,656</u>	<u>\$ 57,044</u>	<u>\$ 3,612</u>	<u>\$ 4,165</u>	<u>\$ (553)</u>	<u>\$ 3,612</u>

Net Interest Margin Trend By Quarter	2004		2003			
	2nd	1st	4th	3rd	2nd	1st
Yield on interest-earning assets	5.10%	5.29%	5.31%	5.23%	5.47%	5.69%
Rates paid on interest-bearing liabilities....	1.50%	1.54%	1.54%	1.56%	1.73%	1.92%
Net interest margin	3.81%	3.97%	4.01%	3.90%	4.01%	4.06%

Table 3
Net Interest Income and Margin Analysis
(Dollar amounts in thousands)

Six Months Ended June 30, 2004 and 2003

	Average Balances			Average Interest Rates Earned/Paid			Interest Income/Expense			Increase/(Decrease) in Interest Income/Expense Due to:		
	2004	2003	Increase (Decrease)	2004	2003	Basis Points Inc/(Dec)	2004	2003	Increase (Decrease)	Volume	Rate	Total
Federal funds sold and other short-term investments	\$ 22,606	\$ 10,358	\$ 12,248	0.98%	1.26%	(0.28)%	\$ 111	\$ 65	\$ 46	\$ 56	\$ (10)	\$ 46
Mortgages held for sale	7,305	16,134	(8,829)	5.12%	5.71%	(0.59)%	187	461	(274)	(230)	(44)	(274)
Securities available for sale ..	2,081,102	2,065,940	12,248	4.96%	4.95%	0.01%	51,584	51,182	402	376	26	402
Securities held to maturity ...	66,902	78,958	(12,056)	5.93%	6.56%	(0.63)%	1,982	2,588	(606)	(372)	(234)	(606)
Loans net of unearned discount:												
Commercial and industrial.	1,078,273	937,392	140,881	4.95%	5.52%	(0.57)%	26,672	25,888	784	2,563	(1,779)	784
Agricultural	99,065	83,254	15,811	4.20%	4.73%	(0.53)%	2,082	1,970	112	272	(160)	112
Real estate – commercial ...	1,430,310	1,009,930	420,380	5.62%	6.23%	(0.61)%	40,164	31,456	8,708	11,406	(2,698)	8,708
Real estate – construction ..	442,077	372,718	69,359	4.77%	5.12%	(0.35)%	10,534	9,537	997	1,581	(584)	997
Consumer	891,815	902,886	(11,071)	5.61%	6.44%	(0.83)%	24,994	29,066	(4,072)	(352)	(3,720)	(4,072)
Real estate – 1-4 family	163,850	130,227	33,623	5.98%	6.45%	(0.47)%	4,896	4,199	697	974	(277)	697
Total loans	4,105,390	3,436,407	668,983	5.33%	5.94%	(0.61)%	109,342	102,116	7,226	16,444	(9,218)	7,226
Total interest-earning assets ..	<u>\$ 6,283,305</u>	<u>\$ 5,607,797</u>	<u>\$ 675,508</u>	<u>5.19%</u>	<u>5.58%</u>	<u>(0.39)%</u>	<u>\$ 163,206</u>	<u>\$ 156,412</u>	<u>\$ 6,794</u>	<u>\$ 16,274</u>	<u>\$ (9,480)</u>	<u>\$ 6,794</u>
Savings deposits	\$ 646,168	\$ 489,840	\$ 156,328	0.67%	0.50%	0.17%	\$ 2,154	\$ 1,213	\$ 941	\$ 451	\$ 490	\$ 941
NOW accounts	916,609	754,394	162,215	0.78%	0.88%	(0.10)%	3,596	3,330	266	550	(284)	266
Money market deposits	744,770	561,929	182,841	1.16%	1.35%	(0.19)%	4,331	3,805	526	929	(403)	526
Time deposits	1,672,118	1,628,814	43,304	2.05%	2.58%	(0.53)%	17,144	21,029	(3,885)	576	(4,461)	(3,885)
Borrowed funds	1,286,167	1,314,709	(28,542)	1.52%	2.12%	(0.60)%	9,766	13,928	(4,162)	(296)	(3,866)	(4,162)
Subordinated debt - trust preferred securities	128,500	-	128,500	6.24%	-	6.24%	4,006	-	4,006	4,006	-	4,006
Total interest-bearing liabilities	<u>\$ 5,394,332</u>	<u>\$ 4,749,686</u>	<u>\$ 644,646</u>	<u>1.52%</u>	<u>1.82%</u>	<u>(0.30)%</u>	<u>\$ 40,997</u>	<u>\$ 43,305</u>	<u>\$ (2,308)</u>	<u>\$ 6,216</u>	<u>\$ (8,524)</u>	<u>\$ (2,308)</u>
Net interest margin / income				<u>3.89%</u>	<u>4.03%</u>	<u>(0.14)%</u>	<u>\$ 122,209</u>	<u>\$ 113,107</u>	<u>\$ 9,102</u>	<u>\$ 10,058</u>	<u>\$ (956)</u>	<u>\$ 9,102</u>

Noninterest Income

Noninterest income decreased \$2.1 million, or 9.9%, for second quarter 2004 from second quarter 2003 largely as a result of the impact of certain transactions. Specifically, the effect of security gains of \$2.7 million and early debt extinguishment costs of \$1.4 million in second quarter 2004 was less than the second quarter 2003 security gains of \$3.3 million. Excluding these transactions, noninterest income was \$17.9 million in second quarter 2004, virtually unchanged from second quarter 2003. Increased trust and investment management fees were driven by a combination of expanded sales efforts, improving equity markets, and a pricing increase, and was offset by a decline in other service charges, commissions, and fees. This decline reflects the impact of lower revenue from investment products and mortgage-related commissions.

The following table analyzes the components of noninterest income for the quarters and six months ended June 30, 2004 and 2003.

Table 4
Noninterest Income Analysis
(Dollar amounts in thousands)

	Quarters Ended June 30,			Six Months Ended June 30,		
	2004	2003	% Change	2004	2003	% Change
Service charges on deposit accounts.....	\$ 7,041	\$ 7,078	(0.5)	\$ 13,282	\$ 13,359	(0.6)
Trust and investment management fees	3,038	2,768	9.8	6,000	5,321	12.8
Other service charges, commissions, and fees	3,834	4,265	(10.1)	7,466	7,733	(3.5)
Card-based fees	2,349	2,196	7.0	4,495	4,277	5.1
Corporate owned life insurance	1,244	1,226	1.5	2,511	2,522	(0.4)
Other income	351	347	1.2	789	694	13.7
Subtotal.....	17,857	17,880	(0.1)	34,543	33,906	1.9
Security gains, net.....	2,663	3,335	N/M	4,602	3,401	N/M
(Losses) on early extinguishment of debt	(1,413)	-	N/M	(2,653)	-	N/M
Litigation settlement	-	-	N/M	-	1,200	N/M
Gain realized on sale of property.....	-	-	N/M	-	472	N/M
Total noninterest income	\$ 19,107	\$ 21,215	(9.9)	\$ 36,492	\$ 38,979	(6.4)

N/M – not meaningful

For a discussion on net security gains, refer to the section titled “Securities Portfolio” commencing on page 23 of this Form 10-Q. For a discussion on losses on early extinguishment of debt, refer to the section titled “Funding and Liquidity Management” commencing on page 26 of this Form 10-Q.

Noninterest Expense

Noninterest expense increased \$2.0 million to \$40.0 million for second quarter 2004 from \$38.0 million for second quarter 2003, as \$713,000 of salary costs resulting from the addition of CoVest employees was more than offset by comparatively lower incentive-based compensation. Other increases in second quarter 2004 expenses from second quarter 2003 included increased advertising and promotional activity and a \$339,000 increase in employee insurance costs, a component of retirement and other employee benefits. Offsetting equipment expense increases and technology and related cost decreases reflect the Company’s decision in late 2003 to process checks and other transactional media internally versus the use of an external vendor.

The following table sets forth the components of noninterest expense for the quarters ended June 30, 2004 and 2003.

Table 5
Noninterest Expense Analysis
(Dollar amounts in thousands)

	<u>Quarters Ended June 30,</u>			<u>Six Months Ended June 30,</u>		
	<u>2004</u>	<u>2003</u>	<u>% Change</u>	<u>2004</u>	<u>2003</u>	<u>% Change</u>
Salaries and wages	\$ 16,041	\$ 16,295	(1.6)	\$ 32,829	\$ 31,594	3.9
Retirement and other employee benefits	5,714	5,118	11.6	11,042	9,831	12.3
Net occupancy expense.....	3,772	3,633	3.8	7,875	7,312	7.7
Equipment expense.....	2,258	1,893	19.3	4,500	3,805	18.3
Technology and related costs	2,007	2,514	(20.2)	4,042	4,845	(16.6)
Professional services.....	1,784	1,905	(6.4)	3,535	3,388	4.3
Advertising and promotions.....	1,488	994	49.7	2,362	2,800	(15.6)
Integration costs – CoVest Acquisitions....	-	-	N/M	650	-	N/M
Intangibles amortization.....	533	-	N/M	1,066	-	N/M
Other expenses.....	6,380	5,602	13.9	12,281	11,217	9.5
Total noninterest expense.....	<u>\$ 39,977</u>	<u>\$ 37,954</u>	<u>5.3</u>	<u>\$ 80,182</u>	<u>\$ 74,792</u>	<u>7.2</u>
Efficiency ratio	<u>49.9%</u>	<u>49.9%</u>		<u>50.2%</u>	<u>49.5%</u>	

N/M – not meaningful

The efficiency ratio expresses noninterest expense as a percentage of tax-equivalent net interest income plus total fees and other income. The efficiency ratio was 49.9% both for second quarter 2004 and second quarter 2003.

Income Taxes

The Company’s accounting policies underlying the recognition of income taxes in the Consolidated Statements of Condition and Income are included in the “Notes to Consolidated Financial Statements” contained in its 2003 Annual Report on Form 10-K.

Income tax expense totaled \$8.1 million for second quarter 2004 as compared to \$8.7 million for second quarter 2003 and reflects effective income tax rates of 24.6% for second quarter 2004 and 26.1% for second quarter 2003. The decrease in effective tax rate is primarily attributable to an increase in tax-exempt income earned on state and municipal securities.

FINANCIAL CONDITION

Securities Portfolio

The following table sets forth the period end carrying values of the securities portfolios and changes therein as of the following periods.

Table 6
Composition of Securities Portfolio
(Dollar amounts in thousands)

	2004		2003		June 30, 2004 % Change from	
	June 30	December 31	June 30	June 30	12/31/03	6/30/03
By type:						
U.S. Treasury.....	\$ 1,026	\$ 1,376	\$ 1,310		(25.4)	(21.7)
U.S. Agency	125,048	219,580	100,125		(43.1)	24.9
Collateralized mortgage obligations.....	815,037	902,221	1,221,590		(9.7)	(33.3)
Other mortgage-backed securities	310,612	261,462	210,791		18.8	47.4
State and municipal.....	750,792	825,674	857,787		(9.1)	(12.5)
Other.....	121,871	86,783	69,811		40.4	74.6
Total.....	\$ 2,124,386	\$ 2,297,096	\$ 2,461,414		(7.5)	(13.7)
By classification:						
Available for sale	\$ 2,062,707	\$ 2,229,650	\$ 2,371,459		(7.5)	(13.0)
Held to maturity	61,679	67,446	89,955		(8.6)	(31.4)
Total.....	\$ 2,124,386	\$ 2,297,096	\$ 2,461,414		(7.5)	(13.7)

As of June 30, 2004, the carrying value of the securities portfolio totaled \$2.1 billion, down from \$2.3 billion at December 31, 2003 and \$2.5 billion as of June 30, 2003. The \$172.7 million decrease in the portfolio from year-end 2003 resulted from management's decision to not fully reinvest security cash flows received during the first six months of 2004 as well as a \$71.6 million decrease in the unrealized market value of the available for sale securities.

Since June of 2003, management, in anticipation of higher interest rates, has elected to reduce the size of its securities portfolio by only reinvesting a portion of the security cash flows received. As a result, as of June 30, 2004, the securities portfolio represented 31% of total assets, down from 33% as of December 31, 2003 and 38% as of June 30, 2003. During the second quarter and first six months of 2004, the Company sold securities totaling \$47.1 million and \$269.6 million, respectively. These security sales resulted in net gains realized of \$2.7 million in second quarter 2004 and \$4.6 million for the first six months of 2004. As market conditions warrant, the Company may consider redeploying assets, increasing the size of its securities portfolio, and returning the mix of securities to total assets closer to historically maintained levels.

As of June 30, 2004, the net unrealized depreciation in the market value of the available-for-sale securities portfolio was \$17.6 million, down from a net unrealized appreciation of \$54.1 million at December 31, 2003. As of June 30, 2004, the portfolio had a weighted average life of 4.3 years and an effective duration of 3.28%, increased from December 31, 2003's weighted average life of 3.6 years and effective duration of 2.75%. The decline in net unrealized portfolio appreciation and the increase in both weighted average life and duration from December 31, 2003 to June 30, 2004 reflect the increase in longer-term interest rates over that same period and an expectation of slowed mortgage-related prepayment speeds.

LOAN PORTFOLIO AND CREDIT QUALITY

Portfolio Comparison

The following table summarizes the changes in loans outstanding based on period end balances.

Table 7
Loan Portfolio
(Dollar amounts in thousands)

	June 30, 2004	December 31, 2003	% Change
Commercial and industrial.....	\$ 1,113,493	\$ 1,052,117	5.8
Agricultural	101,062	94,983	6.4
Real estate - commercial.....	1,440,770	1,393,420	3.4
Real estate - construction.....	448,454	453,429	(1.1)
Subtotal - corporate loans.....	3,103,779	2,993,949	3.7
Direct installment, net	82,798	88,147	(6.1)
Home equity	474,763	455,014	4.3
Indirect installment, net.....	349,622	352,427	(0.8)
Subtotal - consumer loans.....	907,183	895,588	1.3
Real estate - 1-4 family	162,267	170,245	(4.7)
Total net loans.....	\$ 4,173,229	\$ 4,059,782	2.8

Total loans at June 30, 2004 increased 2.8% from December 31, 2003, as increases in corporate lending offset decreases in 1-4 family real estate lending. Corporate loan balances as of June 30, 2004 increased by 3.7% from year-end 2003, primarily due to increases in commercial, agricultural, and commercial real estate lending. The increase in commercial and commercial real estate loans reflects the impact of continuing sales efforts and customers drawing upon existing lines of credit, while real estate construction loans declined by 1.1% due to contractual maturities. The Company remains optimistic about the prospects for commercial and commercial real estate loan growth for the rest of 2004.

Consumer loan balances as of June 30, 2004 increased 1.3% from December 31, 2003 as pricing and promotional activities have resulted in increased home equity line sales activity. Offsetting this increase was a decline in both indirect and direct consumer lending activity due to competitive pricing pressure. Real estate 1-4 family loans declined by 4.7% from year-end 2003, as loans continued to refinance in the low rate environment.

Credit Quality Management

Nonperforming assets include: (1) loans for which the accrual of interest has been discontinued; (2) loans for which the terms have been renegotiated to provide for a reduction or deferral of interest and principal due to a weakening of the borrower's financial condition; and (3) real estate that has been acquired primarily through foreclosure and is awaiting disposition. For a detailed discussion on the Company's policy on accrual of interest on loans see Note 1 of "Notes to Consolidated Financial Statements," commencing on page 47 of the Company's 2003 Annual Report on Form 10-K.

Loans past due 90 days and still accruing interest are not included in nonperforming assets and continue to accrue interest because they are adequately secured by collateral and/or are in the process of collection and are reasonably expected to result in repayment or restoration to current status.

The following table summarizes nonperforming assets and past due loans for the last five consecutive quarters.

Table 8
Nonperforming Assets and Past Due Loans
(Dollar amounts in thousands)

	2004		2003		
	June 30	March 31	December 31	September 30	June 30
Nonaccrual loans:					
Commercial and industrial	\$ 14,219	\$ 8,130	\$ 5,817	\$ 6,397	\$ 5,411
Agricultural	-	84	169	270	272
Real estate – commercial	2,401	1,801	1,823	927	1,338
Real estate – construction.....	3,819	4,644	4,331	731	91
Consumer	1,853	2,005	1,516	1,605	1,329
Real estate – 1-4 family	2,329	2,040	2,274	1,512	982
Total nonaccrual loans	24,621	18,704	15,930	11,442	9,423
Restructured loans	-	-	7,137	7,219	7,328
Total nonperforming loans.....	24,621	18,704	23,067	18,661	16,751
Foreclosed real estate	4,602	4,779	5,812	3,842	4,576
Total nonperforming assets	\$ 29,223	\$ 23,483	\$ 28,879	\$ 22,503	\$ 21,327
90 days past due loans (still accruing interest) ..	\$ 4,160	\$ 6,977	\$ 3,384	\$ 4,806	\$ 5,723
Nonperforming loans to total loans	0.59%	0.45%	0.57%	0.53%	0.48%
Nonperforming assets to total loans plus foreclosed real estate.....	0.70%	0.57%	0.71%	0.64%	0.61%
Reserve for loan losses as a percent of:					
Total loans at period-end	1.36%	1.38%	1.39%	1.41%	1.40%
Nonperforming loans.....	230%	303%	245%	263%	293%
Provision for loan losses.....	\$ 2,405	\$ 1,928	\$ 3,075	\$ 2,660	\$ 2,540
Net loans charged-off.....	\$ 2,347	\$ 1,704	\$ 3,055	\$ 2,620	\$ 1,436
Net loans charged-off to average loans.....	0.23%	0.17%	0.35%	0.30%	0.17%

Total nonperforming assets at June 30, 2004 totaled \$29.2 million, representing 0.70% of loans plus foreclosed real estate, up from 0.57% on a linked-quarter basis and approximating December 2003 levels of 0.71%. The second quarter 2004 increase in nonperforming assets primarily represents two commercial manufacturing credits transferred to nonaccrual status, which the Company is rigorously remediating. Of the \$29.2 million in total nonperforming assets at June 30, 2004, approximately one-third originated from the \$530.8 million CoVest loan portfolio purchased on December 31, 2003, or 2.2% of CoVest loans. Management believes that the classification of assets acquired from Co Vest to nonperforming largely reflects the impact of the Company's more stringent credit monitoring and remediation programs.

The Company's disclosure with respect to impaired loans is contained in Note 6, "Reserve For Loan Losses and Impaired Loans," commencing on page 9 of this Form 10-Q.

Reserve for Loan Losses

Transactions in the reserve for loan losses during the quarters and six months ended June 30, 2004 and 2003 are summarized in the following table.

Table 9
Reserve for Loan Losses
(Dollar amounts in thousands)

	Quarters Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Balance at beginning of period	\$ 56,628	\$ 48,020	\$ 56,404	\$ 47,929
Loans charged-off	(2,977)	(2,460)	(5,350)	(5,399)
Recoveries of loans previously charged-off	630	1,024	1,299	1,524
Net loans charged-off	(2,347)	(1,436)	(4,051)	(3,875)
Provision for loan losses	2,405	2,540	4,333	5,070
Balance at end of period	\$ 56,686	\$ 49,124	\$ 56,686	\$ 49,124
Net loans charged-off to average loans	0.23%	0.17%	0.20%	0.23%

The reserve for loan losses of \$56.7 million at June 30, 2004 was \$7.6 million higher than the reserve for loan losses at June 30, 2003, with the increase primarily resulting from the CoVest Acquisition. Loans charged-off in second quarter 2004 increased 21% over second quarter 2003. However, on a year-to-date basis, loans charged-off were relatively flat. Second quarter 2004 increases were attributable to higher commercial charge-offs offset by reduced consumer charge-offs. The provision for loan losses exceeded net charge-offs for second quarter 2004, and the ratio of the reserve for loan losses to total loans at quarter-end was 1.36%, approximating the level at year-end 2003. The reserve for loan losses at June 30, 2004 represented 230% of nonperforming loans, as compared to 293% at the end of second quarter 2003 and 245% at year-end 2003.

The Company maintains a reserve for loan losses to absorb probable losses inherent in the loan portfolio. The reserve for loan losses consists of three components: (i) specific reserves established for any impaired commercial, real estate commercial, and real estate construction loan for which the recorded investment in the loan exceeds the measured value of the loan; (ii) reserves based on historical loan loss experience; and (iii) general reserves maintained to cover uncertainties that affect management's estimate of probable losses. Management evaluates the sufficiency of the reserve for loan losses based upon the combined total of the specific historical loss and general components. Management believes that the reserve for loan losses of \$56.7 million is adequate to absorb credit losses inherent in the loan portfolio at June 30, 2004.

The accounting policies underlying the establishment and maintenance of the reserve for loan losses through provisions charged to operating expense are discussed in Notes 1 and 6 of "Notes to Consolidated Financial Statements," commencing on pages 47 and 57, respectively, of the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

FUNDING AND LIQUIDITY MANAGEMENT

The following table provides a comparison of average funding sources for the quarters ended June 30, 2004 and December 31, 2003. Average, rather than period-end balances, are more meaningful in analyzing funding sources because of the inherent fluctuations that occur on a monthly basis within most deposit categories.

Table 10
Funding Sources – Average Balances
(Dollar amounts in thousands)

	Quarters Ended				% Change
	June 30, 2004	% of Total	December 31, 2003	% of Total	
Demand deposits	\$ 881,595	13.9	\$ 828,093	14.6	6.5
Savings deposits	655,872	10.4	506,242	8.9	29.6
NOW accounts.....	952,986	15.0	852,921	15.0	11.7
Money market deposits	737,458	11.6	690,861	12.2	6.7
Transactional deposits	3,227,911	50.9	2,878,117	50.7	12.2
Time deposits	1,466,638	23.1	1,423,988	25.1	3.0
Brokered deposits.....	224,990	3.6	104,588	1.9	115.1
Total deposits	4,919,539	77.6	4,406,693	77.7	11.6
Securities sold under agreements to repurchase....	522,487	8.2	579,132	10.2	(9.8)
Federal funds purchased.....	241,574	3.8	210,423	3.7	14.8
Federal Home Loan Bank advances.....	530,309	8.4	414,511	7.3	27.9
Other borrowed funds.....	-	-	803	-	(100.0)
Total borrowed funds	1,294,370	20.4	1,204,869	21.2	7.4
Subordinated debt - trust preferred securities	128,728	2.0	61,560	1.1	109.1
Total funding sources	\$ 6,342,637	100.0	\$ 5,673,122	100.0	11.8

The Company's total average deposits for second quarter 2004 increased 11.6% from the quarter ended December 31, 2003 as a result of its acquisition of \$465.7 million in deposits as part of the CoVest Acquisition. The mix of deposits remained relatively unchanged from fourth quarter 2003 as transactional deposits continued to represent approximately one-half of total funding sources.

Total average borrowed funds for second quarter 2004 increased 7.4% from the quarter ended December 31, 2003. Funding needs were provided through the Federal Funds market and Federal Home Loan Bank advances. The Company's banking subsidiary, First Midwest Bank ("the Bank"), is a member of the Federal Home Loan Bank ("FHLB") and has access to term financing from the FHLB. These advances are secured by qualifying residential mortgages and mortgage-related securities. As of June 30, 2004, all advances from the FHLB have fixed interest rates with interest payable monthly and with only one \$10 million advance callable.

As of June 30, 2004, FHLB borrowings totaled \$531.0 million, as compared to \$491.4 million as of December 31, 2003. As of June 30, 2004, the weighted average maturity of FHLB borrowings was 12.1 months and the average rate paid thereon was 1.67%, as compared to 20.2 months and 2.35%, respectively, as of December 31, 2003. The Company was able to reduce the weighted average rate on its FHLB borrowings by refinancing and restructuring \$67.0 million of FHLB advances during second quarter 2004. A total of \$115.0 million of FHLB debt was refinanced during the first six months of 2004. The current quarter restructuring resulted in a loss on early extinguishment of debt of \$1.4 million, bringing 2004 year-to-date debt extinguishment costs to \$2.7 million.

In November 2003, the Company issued \$125 million in trust preferred securities at a fixed cost of 6.95% primarily to fund the CoVest Acquisition. The average balance of subordinated debt-trust preferred securities more than doubled in second quarter 2004 as compared to fourth quarter 2003 since these securities were outstanding for the entire quarter in 2004.

MANAGEMENT OF CAPITAL

Stockholders' Equity

Stockholders' equity at June 30, 2004 was \$506.9 million as compared to \$522.5 million at December 31, 2003. Stockholders' equity as a percentage of assets was 7.4% at June 30, 2004 compared to 7.6% at December 31, 2003. Book value per common share was \$10.87 at the end of second quarter 2004, down from \$11.22 at the end of 2003, and was attributable to a \$43.7 million post-tax reduction in the appreciation of the available for sale securities portfolio reflected in other comprehensive income.

Capital Measurements

The Federal Reserve Board ("FRB"), the primary regulator of the Company and its subsidiary bank, establish minimum capital requirements that must be met by member institutions. The Company has managed its capital ratios to consistently maintain such measurements in excess of the FRB minimum levels to be considered "well-capitalized," which is the highest capital category established.

The following table presents the Company's consolidated measures of capital as of the dates presented and the capital guidelines established by the FRB to be categorized as "well capitalized."

Table 11
Capital Measurements

	June 30,		December 31,	Regulatory
	2004	2003	2003	Minimum For
				Well Capitalized
Regulatory capital ratios:				
Total capital to risk-weighted assets	11.45%	10.38%	11.41%	10.00%
Tier 1 capital to risk-weighted assets	10.37%	9.31%	10.29%	6.00%
Tier 1 leverage to average assets	7.97%	6.99%	8.49%	5.00%
Tangible equity ratios:				
Tangible equity to tangible assets.....	6.07%	7.36%	6.22%	(1)
Tangible equity to risk-weighted assets.....	7.84%	10.35%	8.43%	(1)

(1) Ratio is not subject to Regulatory Guidance. Tangible equity and tangible assets equal total equity and assets, respectively, less goodwill and other intangibles.

Regulatory capital ratios were all higher at June 30, 2004 than at June 30, 2003, primarily due to the November 2003 issuance of trust preferred securities, which are classified as Tier 1 capital for regulatory capital purposes. Tangible equity ratios declined in comparison to 2003 due to the addition of \$63.1 million in intangible assets that resulted from the CoVest Acquisition and the \$55.7 million decline in post-tax unrealized appreciation in the securities portfolio.

Stock Repurchase Programs

The Company has continued to follow a policy of retaining sufficient capital to support growth in total assets and returning excess capital to stockholders in the form of dividends and through common stock repurchases, with the latter resulting in an increase in the percentage of ownership in Company stock by existing stockholders.

In August 2002, the Company's Board of Directors authorized the repurchase of up to 3 million of its common shares, or 6.28% of shares then outstanding. The plan authorizes repurchases in both open market and privately negotiated transactions and has no execution time limit. The Company intends to continue share repurchases throughout 2004, with the pace of repurchase subject to ongoing capital, investment, and acquisition considerations.

During second quarter 2004, the Company did not repurchase any shares pursuant to its current authorized repurchase program. The shares repurchased by the Company during the quarter ended June 30, 2004, as presented

in the following table, represent direct repurchases from participants related to the administration of the Company's stock option plans.

Table 12
Issuer Purchases of Equity Securities
(Number of shares in thousands)

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1– April 30, 2004	2	\$ 34.39	-	1,396
May 1 – May 31, 2004	25	34.15	-	1,396
June 1 – June 30, 2004	44	34.30	-	1,396
Total	<u>71</u>	<u>\$ 34.25</u>	<u>-</u>	

The repurchased shares are held as treasury stock and available for issuances in conjunction with the Company's Dividend Reinvestment Plan, qualified and nonqualified retirement plans, and stock option plans as well as for other corporate purposes. During second quarter 2004, the Company reissued 95,469 treasury shares to fund such plans.

The following table summarizes shares repurchased by the Company for the prior three calendar years and for the first six months of 2004 under current and previous repurchase authorizations.

Table 13
Shares Repurchased Under Authorized Programs
(Number of shares in thousands)

	Six Months Ended June 30, 2004	Years Ended December 31,		
		2003	2002	2001
Shares purchased.....	162	842	1,866	2,604
Cost.....	\$ 5,341	\$ 22,404	\$ 52,117	\$ 64,582
Average price per share	\$ 32.95	\$ 26.60	\$ 27.53	\$ 24.80

Dividends

Dividends of \$0.22 per common share were declared in second quarter 2004, up 15.8% from the quarterly dividend per share declared in second quarter 2003 of \$0.19. The dividend payout ratio, which represents the percentage of earnings per share declared to stockholders as dividends, was 41.5% for second quarter 2004 and 35.8% for second quarter 2003. The 2004 annualized indicated dividend of \$0.88 represents an annual dividend yield of 2.5% as of June 30, 2004.

**ITEM 3. QUALITATIVE AND QUANTITATIVE
DISCLOSURES ABOUT MARKET RISK**

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates, and equity prices. Interest rate risk is the Company's primary market risk and is the result of repricing, basis, and option risk. A description and analysis of the Company's interest rate risk management policies is included in the Item 7a, "Qualitative and Quantitative Disclosures about Market Risk" contained in the Company's 2003 Annual Report on Form 10-K.

The Company seeks to achieve consistent growth in net interest income and net income while managing volatility that arises from shifts in interest rates. The Company's Asset and Liability Management Committee ("ALCO") oversees financial risk management by developing programs to measure and manage interest rate risks within authorized limits set by the Company's Board of Directors. ALCO also approves the Company's asset/liability management policies, oversees the formulation and implementation of strategies to improve balance sheet positioning and earnings, and reviews the Company's interest rate sensitivity position. Management uses net interest income and economic value of equity simulation modeling tools to analyze and capture near-term and longer-term interest rate exposures.

Net interest income represents the Company's primary tool for measuring interest rate sensitivity. Net interest income simulation analysis measures the sensitivity of net interest income to various interest rate movements and balance sheet structures. The simulation is based on actual cash flows and repricing characteristics for on and off-balance sheet instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. The simulation includes management projections for activity levels in each of the product lines offered by the Company. Assumptions based upon the historical behavior of deposit rates and balances in relation to interest rates are also incorporated into the simulation. These assumptions are inherently uncertain. As a result, the simulation cannot precisely measure net interest income or precisely predict the impact of the fluctuation in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes, as well as changes in market conditions and management strategies.

The Company monitors and manages interest rate risk within approved policy limits. The simulation model assesses the magnitude of changes in net interest income resulting from changes in interest rates over a 12-month horizon and uses multiple rate scenarios. These scenarios include, but are not limited to, a flat or unchanged rate environment, a "most likely" forecast (which the Company believes to be the most probable outlook), a graduated increase and decrease of 200 basis points that occurs in equal steps over a six month time horizon, and immediate increases and decreases of 200 and 300 basis points.

The Company's current interest rate risk policy limits are determined by measuring the change in net interest income over a 12-month horizon assuming a significant 200 basis point graduated increase in all interest rate limits. Current policy limits this exposure to plus or minus 8% of the anticipated level of net interest income over the corresponding 12-month horizon assuming no change in current interest rates.

The Company's 12-month net interest income sensitivity profile as of June 30, 2004 and December 31, 2003 is as follows.

Analysis of Net Interest Income Sensitivity
(Dollar amounts in thousands)

	Gradual Change in Rates ⁽¹⁾		Immediate Change in Rates			
	-200 ⁽²⁾	+200	-200 ⁽²⁾	+200	-300 ⁽²⁾	+300
June 30, 2004:						
Dollar change	\$ (18,045)	\$ 1,304	\$ (28,027)	\$ 6,125	\$ (28,027)	\$ 11,423
Percent change.....	-7.6%	+0.6%	-11.8%	+2.6%	-11.8%	4.8%
December 31, 2003:						
Dollar change	\$ (26,053)	\$ 5,377	\$ (35,487)	\$ 7,016	\$ (35,487)	\$ 12,619
Percent change.....	-11.2%	+2.3%	-15.3%	+3.0%	-15.3%	+5.4%

- (1) Reflects an assumed uniform change in interest rates that occurs in equal steps over a six-month horizon.
- (2) Due to the low level of interest rates as of June 30, 2004 and December 31, 2003, management's judgment was used to set reasonable levels of change in the yield curve and establish, where appropriate, interest rate floors for select interest-earning assets and interest-bearing liabilities.

As of June 30, 2004, the Company's interest rate sensitivity profile, assuming a gradual change in rates, was less positive in rising interest rate scenarios and less negative in falling rate scenarios than the profile that existed as of December 31, 2003. The change in profile results from a combination of the comparatively higher level of longer-term interest rates existent as of June 30, 2004 and the nature of certain management strategies relating to security investment and extension and wholesale funding. The higher level of interest rates existent at June 30, 2004 limits the Company's ability to benefit from future interest rate increases, as the positive impact of slowing mortgage prepayments will have already been partially realized as actual performance during second quarter 2004. In addition, the Company's strategies to return the size of its securities portfolio closer to historical levels, while improving earnings, could increase interest rate sensitivity to the extent longer-term investments are funded with shorter-term borrowings.

In addition to the simulation analysis, management uses an economic value of equity sensitivity technique to capture the risk in both short and long-term positions and to study the impact of long-term cash flows on earnings and capital. Economic value of equity involves discounting present values of expected cash flows on all assets, liabilities, and off-balance sheet contracts under different interest rate scenarios. The discounted present value of all cash flows represents the Company's economic value of equity. Economic value of equity does not represent the true fair value of asset, liability, or derivative positions because factors such as credit risk, liquidity risk, and the impact of future changes to the balance sheet are not considered. The Company's policy guidelines call for preventative measures to be taken in the event that an immediate increase or decrease in interest rates of 200 basis points is estimated to reduce the economic value of equity by more than 20%.

Analysis of Economic Value of Equity

(Dollar amounts in thousands)

	Immediate Change in Rates	
	-200	+200
June 30, 2004:		
Dollar change	\$ (24,500)	\$ (41,934)
Percent change.....	-2.5%	-4.2%
December 31, 2003:		
Dollar change	\$ (36,271)	\$ (53,088)
Percent change.....	-3.8%	-5.5%

The sensitivity of the Company's economic value of equity to changes in interest rates has decreased slightly in comparison to December 31, 2003. As market interest rates have increased since December 31, 2003, mortgage-related prepayment speeds have slowed, and, as a result, the duration of the Company's mortgage-backed securities portfolio has increased. At the same time, the comparatively higher level of interest rates as of June 30, 2004 lessens the estimated impact of future rate increases on the duration of these assets. Conversely, higher market rates also serve to shorten the expected duration of transactional deposit accounts and the remaining term to maturity for fixed-term FHLB advances, repurchase agreements, and time deposits shorten as time passes. In combination, these factors generally offset and result in the sensitivity of the economic value of equity to both rising and falling rates being slightly less as of June 30, 2004 than that at December 31, 2003.

The Company's current net interest income and economic value of equity sensitivity position is in a period of transition, reflective of the markets transition to a higher rate environment. To insulate net interest income performance from the negative impact of rising rates, management strategies during 2003 and the first six months of 2004 looked to shorten asset durations and extend liability terms, reducing the interest rate sensitivity profile of the Company. Given the improving economy, the steepness of the yield curve, and the expectation that short-term interest rates will increase more quickly than longer-term rates, management believes it prudent to consider opportunities to both grow and extend asset durations. Such actions, if elected, would improve net interest income and stabilize net interest margin, but increase interest rate sensitivity to higher rates.

While the Company's balance sheet and net interest income remains vulnerable to an immediate decrease in interest rates, ALCO has deemed the risk of an immediate and extended decline in interest rates to be low given the current rate environment.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

Within 90 days prior to the filing date of this report (the "Evaluation Date"), the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Principal Accounting Officer of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 and 15d-14 of the Securities and Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the President and Chief Executive Officer and Executive Vice President, Chief Financial Officer and Principal Accounting Officer concluded that as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the evaluation date nor were there any significant deficiencies or material weaknesses in the Company's internal controls.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Discussions regarding the purchase of securities by the issuer is located on page 29 of this Form 10-Q.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company, at its Annual Meeting of Stockholders held on May 20, 2004, elected Directors to serve until year 2007. The number of shares voted is presented in the table below.

	Number of Shares Voted ⁽¹⁾	
	For	Withheld
Brother James Gaffney, FSC.....	39,597,093	364,338
John L. Sterling	39,610,122	351,309
J. Stephen Vanderwoude.....	38,334,819	1,626,612

⁽¹⁾ Represents 85.9% of shares outstanding. Each of the three directors received votes in favor of at least 95.9% of shares voted.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits - See Exhibit Index located on page 33.

(b) Reports on Form 8-K

The following Current Reports on Form 8-K were filed or furnished during the second quarter of 2004:

On April 21, 2004, the Company announced its earnings results for the quarter ended March 31, 2004.

On May 20, 2004, the Company made available the slide presentation presented at its annual meeting of stockholders held on May 20, 2004.

On June 3, 2004, the Company made available the slide presentation presented at the Keefe, Bruyette, and Woods 2004 Midwestern Bank Conference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

First Midwest Bancorp, Inc.

Michael L. Scudder
Executive Vice President*

Date: August 9, 2004

* Duly authorized to sign on behalf of the Registrant.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Documents</u>	<u>Sequential Page #</u>
10.1	Outsourcing Agreement by and between First Midwest Bancorp, Inc. and Metavante Corporation dated April 28, 2004.	34
10.2	Revolving Credit Agreement between First Midwest Bancorp, Inc. and M&I Marshall & Ilsley Bank dated April 26, 2004.	68
15	Acknowledgment of Independent Auditors, Ernst & Young LLP.	83
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99	Independent Accountant's Review Report.	88

AMENDMENT TO OUTSOURCING AGREEMENT

THIS AMENDMENT ("Amendment") amends the Outsourcing Agreement dated July 1, 1999, as amended, by and between First Midwest Bancorp, Inc. ("Customer"), and Marshall & Ilsley Corporation, acting through its division, M&I Data Services (the "Agreement"). Subsequent to the effective date of the Agreement, Marshall & Ilsley Corporation assigned the Agreement to Metavante Corporation ("Metavante"), which assumed all of the rights and obligations of Marshall & Ilsley Corporation under the Agreement. This Amendment is made as of this 14th day of May, 2004 (the "Effective Date"), by and between the undersigned parties, and does hereby alter, amend and modify the Agreement and supersedes and takes precedence over any conflicting provisions contained in the Agreement. All other terms and conditions contained in the Agreement shall continue in full force and effect. Except as set forth herein, all capitalized terms not defined herein shall have the same meaning and given to them in the Agreement.

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the undersigned parties agree as follows:

Amendment to the Agreement.

1. **Services.** All Services provided under the Agreement from and after the Effective Date of this Amendment are defined in Exhibit A attached hereto and made a part hereof. All Services shall be performed in accordance with the terms of this Amendment and all documentation published by Metavante describing such Services. In the event that the parties mutually agree upon additional Services or modifications to existing Services, the parties shall execute an amendment to the Agreement detailing the scope of the additional Services, related specifications and warranties, pricing terms, and any other terms relevant to such additional Services. All new Services shall be performed in accordance with the documentation published by Metavante describing such Services except to the extent the applicable amendment specifies other standards.
2. **Fees.** Schedule 8.1 of the Agreement and all previous amendments to the Agreement pertaining to fees are hereby amended, superseded and replaced by the Fee Schedule attached hereto as Exhibit B. Notwithstanding anything to the contrary in the Agreement, the prices and rates specified in the Fee Schedule shall apply effective as set forth in Exhibit B through the remainder of the Term of Agreement.
3. Pursuant to Section 1.2 JJ, "Term" and Section 2.1, Initial Term, of the Agreement, the parties hereby agree that the Agreement shall be extended to June 30, 2014, unless earlier terminated pursuant to the terms of the Agreement (as Amended).
4. Section 18.1, Account Representatives, shall be deleted in its entirety.
5. Section 22.20, IBS Software Purchase, shall be deleted in its entirety.
6. Exhibit D, Special Considerations, attached hereto and made a part hereof, shall be added as a new schedule to the Agreement.
7. Schedule 11.1, Termination Fee Schedule, of the Agreement is hereby deleted in its entirety and replaced with the Termination Fee Schedule attached as Exhibit E hereto.
8. Schedule 9.1 of the Agreement, and any amendments thereto, is hereby deleted in its entirety and replaced by the Master Service Level Schedule attached as exhibit F hereto.
9. The "ARGO Solution" is defined as all functionality comprising the ARGO Suite as of the date of this Amendment, as well as additional functionality released by ARGO in the future if made a part of the Suite.

10. Customer desires to receive and Metavante agrees to provide Wealth Management Services, as more fully described on the attached Exhibit G. Customer agrees to pay Metavante for the Wealth Management Services in accordance with Exhibit G2 attached. Notwithstanding anything to the contrary, Customer shall only be required to receive Wealth Management Services for a term of three (3) years from the initial date of receipt of the Wealth Management Services.

Further, any agreement Customer shall have with its customers with regard to these Services, shall include the language attached as Exhibit G3.

Confidential Treatment. Customer understands and agrees that information set forth in the Exhibits to this Amendment contains Confidential Information of Metavante. Therefore, Customer agrees as follows:

- a. Customer shall not file the Agreement or this Amendment with the U.S. Securities and Exchange Commission (the "SEC") unless such filing is required under Item 601 of Regulation S-K.
- b. In the event that this Amendment must be filed by Customer with the SEC under Regulation S-K, Customer shall take all actions necessary to obtain confidential treatment of the Exhibits to this Amendment in accordance with Rule 406 under the Securities Act of 1933. Specifically, and without limitation, Customer shall omit the Exhibits from the material filed with the SEC and, in lieu thereof, shall indicate in the appropriate place in the material filed that the confidential information has been so omitted and filed separately with the SEC. Customer shall file the Exhibits separately in accordance with the requirements of Rule 406 to maintain the confidentiality of the documents, and file an application making an objection to the disclosure of these materials. If the SEC denies the application, Customer will seek review of the decision under Rule 431.

New Services. Any Services requested by Customer, which are not specifically priced as of the date of this Agreement shall be considered New Services, and will be charged according to Metavante's then current prices, unless otherwise agreed to by the parties.

Continuance of Agreement. Except as amended herein, the conditions and terms of the Agreement shall remain in full force and effect.

Binding Agreement. The parties hereto acknowledge that each has read this amendment, understands it, and agrees to be bound by its terms and conditions as stated herein.

Miscellaneous. Capitalized terms used in this Amendment, which are not otherwise defined herein, shall have the meanings ascribed thereto in the Agreement.

IN WITNESS HEREOF, the parties hereto, through their duly authorized officers and agents, hereby execute this Amendment on the date before written.

METAVANTE CORPORATION ("Metavante")

By: /s/ PAUL T. DANOLA
Name: Paul T. Danola
Title: Executive Vice President
Financial Technology Services and Wealth Management

By: /s/ JAMES R. GESCHKE
Name: James R. Geschke
Title: Senior Vice President and General Manager
Financial technology Services and
Customer Relationship Management

FIRST MIDWEST BANCORP, INC. ("Customer")

By: /s/ KENT S. BELASCO
Name: KENT S. BELASCO

Title: EVP/CIO_____

OUTSOURCING AGREEMENT

By and Between

FIRST MIDWEST BANCORP, INC.

and

MARSHALL & ILSLEY CORPORATION
ACTING THROUGH ITS DIVISION
M&I DATA SERVICES

dated as of
July 1, 1999

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Exhibit A	— Attorney-in-Fact Appointment
EXHIBIT B	— Affidavit

OUTSOURCING AGREEMENT

This Outsourcing Agreement (“*Agreement*”) is made as of the 1st day of July, 1999, by and between First Midwest Bancorp, Inc., a Delaware corporation (“*Customer*”) and Marshall & Ilsley Corporation, a Wisconsin corporation, acting through its division, M&I Data Services (“*M&I*”).

In consideration of the payments to be made and services to be performed hereunder, the parties agree as follows:

SECTION 1. DEFINITIONS.

Section 1.1. Background. This Agreement is being made and entered into with reference to the following facts:

A. Customer provides systems development and operations, data processing, telecommunications and other information technology services for itself, and on behalf of its customers.

B. M&I is a provider of data processing, systems development and operations, corporate support and item processing, home banking, internet banking, retail delivery services, trust data processing, and other services. M&I desires to perform for Customer the outsourcing services described in this Agreement.

C. M&I currently provides data processing services to Customer under a prior agreement and the parties desire to continue the relationship under this Agreement. This Agreement documents the terms and conditions under which Customer agrees to purchase and M&I agrees to provide the Services.

Section 1.2. Definitions. The following terms shall have the meaning ascribed to them in this Section 1.2:

A. “*Account Representative*” shall have the meaning set forth in Section 18.1.

B. “*ADP Services*” shall mean the Accounts Data Processing Services set forth in attached Schedule 5.1.

C. “*Affiliate*” shall mean, with respect to a party, any Entity at any time Controlling, Controlled by or under common Control with, such party.

D. “*Branch Automation Agreement*” shall mean the PCTeller License between M&I and Customer relating to the license and implementation of M&I’s proprietary branch automation software.

E. “*Change in Control*” shall mean any event or series of events by which (i) any person or entity or group of persons or entities shall acquire Control of another person or entity or (ii) in the case of a corporation, during any period of 12 consecutive months commencing before or after the date hereof, individuals who at the beginning of such 12-month period were directors of such corporation shall cease for any reason to constitute a majority of the board of directors of such corporation.

F. “*Confidential Information*” shall have the meaning set forth in Section 17.3 of this Agreement.

G. “*Contract Year*” shall mean successive periods of twelve months, the first of which shall commence on the Effective Date.

H. “*Control*” shall mean the direct or indirect ownership of over 50% of the capital stock (or other ownership interest, if not a corporation) of any Entity or the possession, directly or indirectly, of the power to direct the management and policies of such Entity by ownership of voting securities, by contract or otherwise. “*Controlling*” shall mean having Control of any Entity and “*Controlled*” shall mean being the subject of Control by another Entity.

I. “*Core Services*” shall mean services provided by M&I’s Deposit System, Loan System and Customer Information System.

J. “*Customer*” shall mean Customer and all Affiliates of Customer for whom M&I agrees to provide Services under this Agreement.

K. “*Customer Data*” shall have the meaning set forth in Section 17.1 of this Agreement.

L. “*Damages*” shall mean all direct, actual and verifiable losses, liabilities, damages and claims and related costs and expenses (including reasonable attorneys’ fees and court costs, costs of investigation, litigation, settlement, judgment, interest and penalties). M&I understands and agrees that Damages recoverable by Customer shall include (a) Customer’s reasonable costs and expenses of conversion to another provider; and (b) the unearned portion of any license fee paid by Customer to M&I to license any M&I owned software, *provided* that Customer returns to M&I all copies of the software and deletes the software from Customer’s systems. Customer understands and agrees that, for purposes of the foregoing, software license fees will be earned by M&I on a straight line basis from the date of the applicable license agreement through the later of (i) the last day of the Initial Term of the Agreement, or (ii) the date falling four (4) years after the date of the applicable license agreement.

M. “*Effective Date*” shall mean the date first set forth above.

N. “*Effective Date of Termination*” shall mean the last day on which M&I provides the Services to Customer (including any Termination Assistance).

O. “*Eligible Provider*” shall have the meaning as set forth in Section 3.1 of this Agreement.

P. “*Entity*” means an individual or a corporation, partnership, sole proprietorship, limited liability company, joint venture or other form of organization, and includes the parties hereto.

Q. “*Estimated Remaining Value*” shall mean the number of calendar months remaining between the Effective Date of Termination and the last day of the contracted-for Term, multiplied by the average of the monthly Fees (but in any event no less than the Monthly Base Fee) payable by Customer during the twelve (12) month period prior to the event giving rise to termination rights under this Agreement. In the event the Effective Date of Termination occurs prior to expiration of the First Contract Year, the estimated monthly fees set forth in the Fee Schedule shall be substituted for the average monthly fees described in the preceding sentence.

R. “*Expenses*” shall mean any and all reasonable and direct expenses incurred by M&I for any postage, supplies, materials, travel and lodging provided to or on behalf of Customer under this Agreement.

S. “*Federal Regulator*” shall have the meaning set forth in Section 21.1.

T. “*Fee Schedule*” shall have the meaning set forth in Section 8.1 of this Agreement.

U. “*Initial Services*” shall mean those Services requested by Customer from M&I under this Agreement prior to the Commencement Date. The Initial Services requested as of the Effective Date are set forth in the schedules attached hereto, which shall be modified to include any additional services requested by Customer during the Conversion Period.

V. “*Initial Term*” shall have the meaning set forth in Section 2.1 of this Agreement.

W. “*Legal Requirements*” shall have the meaning set forth in Section 19(A) of this Agreement.

X. “*LU*” shall have the meaning as set forth in Section 8.4 of this Agreement.

Y. “*M&I Proprietary Materials and Information*” shall mean the M&I Software and all source code, object code, documentation (whether electronic, printed,

written or otherwise), working papers, non-customer data, programs, diagrams, models, drawings, flow charts and research (whether in tangible or intangible form or in written or machine readable form), and all techniques, processes, inventions, knowledge, know-how, trade secrets (whether in tangible or intangible form or in written or machine readable form), developed by M&I prior to or during the Term of this Agreement, and such other information relating to M&I or the M&I Software that M&I identifies to Customer as proprietary or confidential at the time of disclosure.

X “*M&I Software*” shall mean the software owned by M&I and used to provide the Services.

AA. “*Millennium Ready*” shall mean the ability of the M&I Software to accurately process date/time data (including calculating, compare and sequence) from, into and between the years 1999 and 2000, including leap year calculations, to the extent that other information technology, used in combination therewith, properly exchanges date/time data with the M&I Software.

BB. “*New Services*” shall mean any services which are not included in the Initial Services. Upon mutual agreement of the parties, New Services shall be included in

CC. “*Operations Center*” shall mean the datacenter used by M&I to provide the ADP Services under this Agreement.

DD. “*Performance Standards*” shall mean those service levels set forth in attached Schedule 9.1 for the provision of ADP Services.

EE. “*Performance Warranty*” shall have the meaning, including the exclusions and exclusive remedy, set forth Article 9 of this Agreement.

FF. “*Plan*” shall have the meaning set forth in Section 20.1 of this Agreement.

GG. “*Proper Instructions*” shall mean those instructions sent to M&I in accordance with Section 3.3 of this Agreement.

HH. “*Services*” shall mean the services, functions and responsibilities described in this Agreement to be performed by M&I during the Term and shall include New Services which are agreed to by the parties in writing.

II. “*Taxes*” shall mean any manufacturers, sales, use, gross receipts, excise, personal property or similar tax or duty assessed by any governmental or quasi-governmental authority upon or as a result of the execution or performance of any service pursuant to this Agreement or materials furnished with respect to this Agreement, except any income, franchise, privilege or like tax on or measured by M&I’s net income, capital stock or net worth.

JJ. “*Term*” shall mean the Initial Term and any extension thereof, unless this Agreement is earlier terminated in accordance with its provisions.

KK. “*Termination Assistance*” shall have the meaning set forth in Section 12.1 of this Agreement.

LL. “*Termination Fee*” shall have the meaning set forth on attached Schedule 11.1.

MM. “*Third Party*” shall mean any Entity other than the parties or any Affiliates of the parties.

NN. “*User Manuals*” shall mean the documentation provided by M&I to Customer which describes the features and functionalities of each of the ADP Services as modified and updated by the customer bulletins distributed by M&I from time to time.

Section 1.3. References. In this Agreement and the schedules and exhibits attached hereto, which are hereby incorporated and deemed a part of this Agreement, references and mention of the word “include” and “including” shall mean “includes, without limitation” and “including, without limitation”, as applicable.

Section 1.4. Interpretation. In the event of a conflict between this Agreement and the terms of any exhibits and schedules attached hereto, the terms of the schedules and exhibits shall prevail and control the interpretation of the Agreement. The exhibits and schedules together with the Agreement shall be interpreted as a single document.

SECTION 2. TERM.

Section 2.1. Initial Term. This Agreement shall commence on the Effective Date and continue for a period of sixty-six (66) months (“*Initial Term*”).

Section 2.2. Extensions. Unless this Agreement has been earlier terminated, at least one (1) year prior to the expiration of the Initial Term, M&I shall submit to Customer a written proposal for renewal of this Agreement. Customer will respond to such proposal within three (3) months following receipt and inform M&I in writing whether or not Customer desires to renew this Agreement. If Customer informed M&I in writing that Customer does not desire to renew this Agreement, this Agreement shall terminate on the last day of the Initial Term. If Customer does not inform M&I in writing that Customer does not desire to renew this Agreement and if M&I and Customer are unable to agree upon the terms for renewal of this Agreement at least six (6) months prior to the expiration of the Initial Term, then this Agreement shall be automatically renewed for one (1) twelve-month period at M&I’s then-current standard prices. Thereafter, this Agreement shall expire unless further renewed in writing by the parties.

Section 3.Appointment.

Section 3.1. Performance by M&I Affiliates or Subcontractors. Customer understands and agrees that Marshall & Ilsley Corporation is a bank holding company and that the actual performance of the Services may be made by the divisions or subsidiaries of Marshall & Ilsley Corporation, Affiliates Controlled by Marshall & Ilsley Corporation, or subcontractors of any of the foregoing Entities (collectively, the “*Eligible Providers*”). For purposes of this Agreement, performance of the Services by any Eligible Provider shall be deemed performance by Marshall & Ilsley Corporation itself. M&I shall remain fully responsible for the performance or non-performance of each Eligible Provider under this Agreement, to the same extent if M&I itself performed or failed to perform such services.

Section 3.2. Third Party Products/Services. The parties acknowledge that certain services and products necessary for the performance of the Services are being, and in the future may be, provided by Third Parties who will contract directly with Customer. M&I shall have no liability to Customer for information and products supplied by, or services performed by, such Third Parties in conjunction with the Services.

Section 3.3. Proper Instructions. “*Proper Instructions*” shall mean those instructions sent to M&I by letter, memorandum, telegram, cable, telex, telecopy facsimile, computer terminal, e-mail or other “on line” system or similar means of communication or given orally over the telephone or given in person by the person executing this Agreement or his designee. Proper Instructions shall specify the action requested to be taken or omitted.

SECTION 4. CONVERSION INTENTIONALLY OMITTED, APPLIES TO NEW CUSTOMERS ONLY.

SECTION 5. BANKING APPLICATION SERVICES.

Section 5.1. ADP Services. M&I agrees to provide Customer with the ADP Services in accordance with the applicable User Manuals and this Agreement.

Section 5.2. New Services. If Customer wishes to receive any New Service Customer shall notify M&I and the parties shall implement the same in accordance with a mutually acceptable schedule. If the New Service is not identified on M&I’s then-current standard price list, Customer shall submit a written request to M&I in accordance with Section 18.3 of this Agreement. Nothing contained herein shall obligate M&I to develop a New Service for Customer.

Section 5.3. Automated Clearing House Services. The automated clearing house services (“*ACH Services*”) to be provided by M&I shall be subject to the terms and conditions set forth on attached Schedule 5.3.

Section 5.4. Trust Services. The trust processing services (“*Trust Services*”) to be provided by M&I shall be subject to the terms and conditions set forth on attached Schedule 5.4.

SECTION 6. RETAIL DELIVERY SYSTEMS AND SERVICES.

Section 6.1. Branch Automation Systems. M&I agrees to provide the licenses, products, interfaces and network management associated with the automation of Customer's branch offices, in accordance with the PCTeller license Agreement.

SECTION 7. EFD PROCESSING SERVICES.

Section 7.1. EFD Services. The electronic funds delivery services ("*EFD Services*") to be provided by M&I shall be subject to the terms and conditions set forth on attached Schedule 7.1.

SECTION 8. FEES.

Section 8.1. Fee Structure. Schedule 8.1 attached hereto (the "*Fee Schedule*") sets forth the costs and charges for the Services and Customer agrees to pay M&I the fees specified in the Fee Schedule for the Services rendered by M&I. These costs and charges are included in one or more of the following categories:

- (i) one-time fees associated with any conversion;
- (ii) a minimum monthly fee for certain recurring, aggregated data processing services based on stated volumes (the "*Monthly Base Fee*");
- (iii) an hourly or daily fee for programming, training and related Services requested by Customer; and
- (iv) fees for New Services not included in the foregoing categories.

Section 8.2. EFD Services. In addition to the charges specified on the Fee Schedule, Customer shall be responsible for all interchange and network provider fees and all dues, fees and assessments established by and owed to Visa and/or Mastercard for the processing of Customer's transactions, and for all costs and fees associated with changes to ATM (as defined in Schedule 7.1) protocol caused by Customer's use of the EFD Services.

Section 8.3. Training and Education. A. M&I shall provide training as requested by Customer and agreed to by M&I. The sessions shall be held at a location mutually agreed upon by the parties. Customer shall be responsible for all Expenses incurred by the participants and M&I's trainers in connection with such education and training. If Customer requests that training be conducted at a non-M&I facility, Customer shall be responsible for additional fees as quoted by M&I.

B. M&I will provide to Customer, at no charge, one set of each of the User Manuals. When the User Manuals are updated, M&I will provide the updates to Customer at no additional charge. Additional sets of the User Manuals may be purchased by Customer.

Section 8.4. Excluded Costs. The fees set forth in the Fee Schedule do not include shipping and courier costs, telecommunication charges, Expenses, Third Party pass-through charges, workshop fees, training fees, late fees or charges and Taxes.

Section 8.5. Disputed Amounts. If Customer disputes any charge or amount on any invoice and such dispute cannot be resolved promptly through good faith discussions between the parties, Customer shall pay the amounts due under this Agreement less the disputed amount, and the parties shall diligently proceed to resolve such disputed amount. An amount will be considered disputed in good faith if (i) Customer delivers a written statement to M&I on or before the due date of the invoice, describing in detail the basis of the dispute and the amount being withheld by Customer, (ii) such written statement represents that the amount in dispute has been determined after due investigation of the facts and that such disputed amount has been determined in good faith, and (iii) all other amounts due from Customer that are not in dispute have been paid in accordance with the terms of this Agreement.

Section 8.6. Terms of Payment. All amounts due hereunder shall be paid within thirty (30) days of invoice. Undisputed charges not paid by the due date shall be subject to annual interest at the rate of 12% or the highest rate permitted by law, whichever is lower. Customer shall also pay any collection fees and Damages incurred by M&I in collecting payment of the charges and any other amounts for which Customer is liable under the terms and conditions of this Agreement.

Section 8.7. Modification of Terms and Pricing. All charges for Services shall be subject to annual adjustment as set forth in the Fee Schedule.

SECTION 9. PERFORMANCE WARRANTY/EXCLUSIVE REMEDY/DISCLAIMER OF ALL OTHER WARRANTIES.

Section 9.1. Performance Warranty. M&I warrants that it will provide the ADP Services covered by this Agreement in accordance with the Performance Standards and that it will provide reports to the Customer that are in substantial conformity with the User Manuals, as amended from time to time. THIS PERFORMANCE WARRANTY IS SUBJECT TO THE WARRANTY EXCLUSIONS SET FORTH BELOW IN ARTICLE 9.2 AND THE REMEDY LIMITATIONS SET FORTH BELOW IN ARTICLE 9.3.

Section 9.2 Performance Warranty Exclusions. Except as may be expressly agreed in writing by M&I, M&I's Performance Warranty does not apply to:

- (a) defects, problems, or failures caused by the Customer's nonperformance of obligations essential to M&I's performance of its obligations; and/or
- (b) defects, problems, or failures caused by an event of force majeure.

Section 9.3. Notice of and Correction of Defects. Customer shall notify M&I in writing of any alleged breach of this Performance Warranty. Upon receipt of such notice, M&I shall have ninety (90) days to correct the alleged breach. During this time period, M&I shall make

every reasonable effort, at its own expense, to correct any material defect. Customer shall be responsible for making whatever appropriate adjustments may be necessary to mitigate adverse effects on Customer until M&I corrects the defect. If requested by Customer, M&I will, at M&I's expense, assist Customer in making such corrections through the most cost-effective means, whether manual, by system reruns or program modifications.

Section 9.4. Disclaimer of all Other Warranties. THIS PERFORMANCE WARRANTY, AND THE REPRESENTATIONS IN SECTION 16.1, ARE IN LIEU OF, AND M&I DISCLAIMS ANY AND ALL OTHER WARRANTIES, CONDITIONS, OR REPRESENTATIONS (EXPRESS OR IMPLIED, ORAL OR WRITTEN) WITH RESPECT TO THE SERVICES PROVIDED UNDER THIS CONTRACT, INCLUDING, WITHOUT LIMITATION, ANY AND ALL IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS OR SUITABILITY FOR ANY PURPOSE (WHETHER OR NOT M&I KNOWS, HAS REASON TO KNOW, HAS BEEN ADVISED, OR IS OTHERWISE IN FACT AWARE OF ANY SUCH PURPOSE), WHETHER ALLEGED TO ARISE BY LAW, BY REASON OF CUSTOM OR USAGE IN THE TRADE, OR BY COURSE OF DEALING.

Section 9.5. Backup Remedy. If M&I fails to remedy the breach in the time periods specified in Section 9.3 above, Customer may file a claim for Damages pursuant to the dispute resolution procedure set forth in Section 15.1 below and, in addition, terminate the Agreement for cause pursuant to Section 11.2 below.

SECTION 10. MODIFICATION OR PARTIAL TERMINATION.

Section 10.1. Modifications to Services. M&I may modify, amend, enhance, update, or provide an appropriate replacement for the software used to provide the Services, or any element of its systems or processes at any time to: (i) improve the Services or (ii) facilitate the continued economic provision of the Services to Customer or M&I, *provided* that neither the functionality of the Services nor any applicable Performance Standards are materially adversely affected.

Section 10.2. Partial Termination by M&I. M&I may, at any time, withdraw any of the Services (other than the Services identified on Schedule 5.1 attached hereto) upon providing one hundred eighty (180) days' prior written notice to Customer. M&I may also terminate any of the Services immediately upon any final regulatory, legislative, or judicial determination that providing such Services is inconsistent with applicable law or regulation. If M&I terminates any Service, M&I agrees to assist Customer, without additional charge, in identifying an alternate provider of such terminated Service. In such event, M&I agrees to provide deconversion data in M&I's standard format at no charge. In the event that Customer shall, at any time after the Effective Date, license M&I owned software and M&I shall thereafter terminate a Service integral to the utility of such software pursuant to this Section 10.2, then M&I agrees to refund to Customer the unearned portion of the license fee paid by Customer for such software. Customer understands and agrees that, for purposes of the foregoing, software license fees will be earned by M&I on a straight line basis from the date of the applicable license agreement through the later of (i) the last day of the Initial Term of this Agreement or (ii) the date falling four (4) years after the date of the applicable license agreement.

Section 10.3. Partial Termination by Customer. A. Customer agrees that, during the Term, Customer shall obtain exclusively from M&I all of its requirements covered by the Initial Services. If Customer breaches the foregoing covenant, Customer shall pay M&I a Termination

Fee for the discontinued Service, as liquidated damages and not as a penalty except that Customer may terminate the receipt of the services specified with an asterisk on Schedule 5.1 without payment of any such fee after providing M&I at least ninety (90) days' prior notice.

B. Unless otherwise agreed to by the parties in writing, Customer may terminate any New Service upon one hundred eighty (180) days prior written notice to M&I. Termination of New Services shall not be subject to any Termination Fee, unless the entire Agreement is terminated in a manner which would entitle M&I to receive a Termination Fee.

Section 10.4. Ownership and Proprietary Rights. M&I reserves the right to determine the hardware, software and tools to be used by M&I in fulfilling its duties under this Agreement. M&I and Customer intend and agree that M&I shall retain title and all other ownership and proprietary rights in and to the M&I Proprietary Materials and information. Such ownership and proprietary rights shall include any and all rights in and to patents, trademarks, copyrights, and trade secret rights. M&I and Customer agree that M&I Proprietary Materials and Information are not "work made for hire" within the meaning of U.S. Copyright Act 17 U.S.C. Section 101.

Section 10.5. Millennium Modifications. The M&I Software has been modified to be Millennium Ready. Any additional modification to the M&I Software to make it Millennium Ready shall be made by M&I at no additional charge to Customer, *provided, however*, that any testing requirements imposed on Customer by any Federal Regulator shall be performed by M&I at Customer's sole cost and expense at M&I's then-current standard rates. M&I shall provide to Customer, at no charge, the results of proxy testing conducted as of the Effective the Initial Date on Services. non-custom M&I Software used to provide the Initial Services.

SECTION 11. TERMINATION.

Section 11.1. Early Termination. The terms and conditions set forth in attached Schedule 11.1 shall govern the early termination of this Agreement (or any Service which is part of the Initial Services).

Section 11.2. For Cause. If either party fails to perform any of its material obligations under this Agreement and does not cure such failure within thirty (30) days after being given notice specifying the nature of the failure, then the non-defaulting party may, by giving notice to the other party, terminate this Agreement as of the date specified in such notice of termination, or such later date agreed to by the parties, without prejudice to the non-defaulting party's right to collect Damages (if the non-defaulting party is the Customer) or the Termination Fee (if the non-defaulting party is M&I).

Section 11.3. For Insolvency. In addition to the termination rights set forth in Sections 11.1 and 11.2, subject to the provisions of Title 11, United States Code, if either party becomes or is declared insolvent or bankrupt, is the subject to any proceedings relating to its liquidation, insolvency or for the appointment of a receiver or similar officer for it, makes an assignment for the benefit of all or substantially all of its creditors, or enters into an agreement for the composition, extension, or readjustment of all or substantially all of its obligations, or is subject to regulatory sanction by any Federal Regulator, then the other party may, by giving written notice to such party, terminate this Agreement as of a date specified in such notice of

termination; *provided* that the foregoing shall not apply with respect to any involuntary petition in bankruptcy filed against a party unless such petition is not dismissed within sixty (60) days of such filing.

Section 11.4. For Force Majeure. In the event that M&I fails to provide the Services in accordance with this Agreement for a continuous, uninterrupted period of at least five (5) consecutive days due to an event of force majeure (as described in Section 22.15 hereof), Customer may immediately terminate this Agreement upon written notice provided to M&I at any time following the expiration of the fifth (5th) day of the period described above and prior to the expiration of such period, without payment of any Termination Fee.

SECTION 12. SERVICES FOLLOWING TERMINATION.

Section 12.1. Termination Assistance. Following the expiration or early termination of this Agreement, M&I shall provide Customer, at Customer's expense, all necessary assistance to facilitate the orderly transition of Services to Customer or its designee ("*Termination Assistance*"). As part of the Termination Assistance, M&I shall assist Customer to develop a plan for the transition of all Services then being performed by M&I under this Agreement, from M&I to Customer or its designee, on a reasonable schedule developed jointly by M&I and Customer. Prior to providing any Termination Assistance, M&I shall deliver to Customer a good faith estimate of all such Expenses and charges including charges for custom programming services. Nothing contained herein shall obligate Customer to receive Termination Assistance from M&I. No termination of this Agreement pursuant to Section 11 above or otherwise shall affect the provisions of this Section 12.1.

Section 12.2. Continuation of Services. Unless M&I terminates this Agreement pursuant to Section 11.2 above, upon at least sixty (60) days' prior written request by Customer, M&I shall continue to provide Customer all Services and the Effective Date of Termination shall be extended for a maximum period of twelve (12) months. If Customer elects to receive the Services for such period, M&I's then-current standard pricing shall apply to the provision and receipt of such Services.

SECTION 13. LIMITATION OF LIABILITY/MAXIMUM DAMAGES ALLOWED.

Section 13.1. Equitable Relief/Customer Damages.

A. *Customer Damages.* To the extent such may be established and proven, Customer shall be entitled to Damages in the event Customer terminates this Agreement pursuant to Section 11.2, Section 11.3, or Section 11.4 of this Agreement.

B. *Equitable Relief.* Either party may seek equitable remedies, including injunctive relief, for a breach of the other party's obligations under Section 17 of this Agreement, prior to commencing the dispute resolution procedures set forth in Section 15.1 below.

Section 13.2. Exclusion of Incidental and Consequential Damages. Independent of, severable from, and to be enforced independently of any other provision of this Agreement, NEITHER PARTY WILL BE LIABLE TO THE OTHER PARTY (NOR TO ANY PERSON CLAIMING RIGHTS

DERIVED FROM THE OTHER PARTY'S RIGHTS) IN CONTRACT, TORT, OR OTHERWISE, FOR INCIDENTAL, CONSEQUENTIAL, SPECIAL, PUNITIVE, OR EXEMPLARY DAMAGES OF ANY KIND—including lost profits, loss of business, or other economic damage, and further including injury to property, but specifically excluding the damages set forth in Article 13.3, below or any consequential damages caused directly by M&I's willful misconduct—AS A RESULT OF BREACH OF ANY WARRANTY OR OTHER TERM OF THIS AGREEMENT, INCLUDING ANY FAILURE OF PERFORMANCE, REGARDLESS OF WHETHER THE PARTY LIABLE OR ALLEGEDLY LIABLE WAS ADVISED, HAD OTHER REASON TO KNOW, OR IN FACT KNEW OF THE POSSIBILITY THEREOF.

Section 13.3. Maximum Damages Allowed. Notwithstanding any other provision of this Agreement, and for any reason, including breach of any duty imposed by this contract or independent of this contract, and regardless of any claim in contract, tort, or otherwise, but specifically excluding liability for damages directly caused by M&I's willful misconduct, M&I's total, aggregate liability under this Agreement shall in no circumstance exceed payments made to M&I by Customer under this Agreement during the six (6) months prior to the act or event giving rise to such claim.

Section 13.4. Statute of Limitations. No lawsuit or other action may be brought by either party hereto, or on any claim or controversy based upon or arising in any way out of this Agreement, after one (1) year from the date on which the cause of action arose regardless of the nature of the claim or form of action, whether in contract, tort, or otherwise; *provided, however*, the foregoing limitation shall not apply to the collection of any amounts due under this Agreement.

Section 13.5. Economic Loss Waiver. In addition to and not in limitation of any other provision of this Article 13, each party hereby knowingly, voluntarily, and intentionally waives any right to recover from the other party any economic losses or damages in any action brought under tort theories, including, misrepresentation, negligence and/or strict liability, or relating to the quality or performance of any products or services provided by M&I. For purposes of this waiver, economic losses and damages include monetary losses or damages caused by a defective product or service except personal injury or damage to other property. Even if remedies provided under this Agreement shall be deemed to have failed of their essential purpose, neither party shall have any liability to the other party under tort theories for economic losses or damages.

Section 13.6. Liquidated Damages. Customer acknowledges that (a) the Termination Fee has been the subject of active negotiation and agreement between the parties; (b) the Termination Fee shall be deemed liquidated damages and not a penalty; and (c) M&I shall suffer a material adverse impact on its business if this Agreement is terminated prior to expiration of its Term.

Section 13.7. Essential Elements. Customer and M&I acknowledge and agree that the limitations contained in this Article are essential to this Agreement, and that M&I has expressly relied upon the inclusion of each and every provision of this Article 13 as a condition to executing this Agreement.

SECTION 14. INSURANCE AND INDEMNITY.

Section 14.1. Insurance. M&I shall maintain for its own protection fidelity bond coverage for the Operations Center personnel; insurance coverage for loss from fire, disaster or the causes contributing to interruption of normal services, including replacement of data processing equipment; reconstruction of data file media and related processing costs; additional expenses incurred to continue operations; and business interruption to reimburse M&I for losses resulting from suspension of the Operation Center's activities due to physical loss of equipment.

Section 14.2. Indemnity.

A. *By Customer.* Customer shall indemnify M&I from, defend M&I against, and pay any final judgments awarded against M&I, resulting from: (i) any breach of this Agreement by Customer (ii) Customer's violation of Federal, state, or other laws or regulations; (iii) work-related injury or death caused by Customer or its employees or agents; (iv) tangible personal or real property damage or financial or monetary loss incurred by M&I resulting from Customer's acts or omissions; and (v) the data, information and/or instructions furnished by Customer and any inaccuracy or inadequacy therein.

B. *By M&I.* M&I shall indemnify Customer from, defend Customer against, and pay any final judgment awarded against Customer, resulting from: (i) any claim by a Third Party that the Services or the M&I Software infringe upon any patent, copyright or trademark of a Third Party under the laws of the United States; (ii) any breach of this Agreement by M&I; (iii) M&I's violation of Federal, state, or other laws or regulations; (iv) work-related injury or death caused by M&I, its employees, or agents; and (v) tangible personal or real property damage resulting from M&I's acts or omissions.

Section 14.3. Indemnification Procedures. If any Third Party makes a claim covered by this Section against an indemnitee with respect to which such indemnitee intends to seek indemnification under this Section, such indemnitee shall give notice of such claim to the indemnifying party, including a brief description of the amount and basis therefor, if known. Upon giving such notice, the indemnifying party shall be obligated to defend such indemnitee against such claim, and shall be entitled to assume control of the defense of the claim with counsel chosen by the indemnifying party, reasonably satisfactory to the indemnitee. Indemnitee shall cooperate fully with, and assist, the indemnifying party in its defense against such claim in all reasonable respects. The indemnifying party shall keep the indemnitee fully apprised at all times as to the status of the defense. Notwithstanding the foregoing, the indemnitee shall have the right to employ its own separate counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnitee. Neither the indemnifying party nor any indemnitee shall be liable for any settlement of action or claim effected without its consent. Notwithstanding the foregoing, the indemnitee shall retain, assume, or reassume sole control over all expenses relating to every aspect of the defense that it believes is not the subject of the indemnification provided for in this section. Until both (a) the indemnitee receives notice from indemnifying party that it will defend, and (b) the indemnifying party assumes such defense, the indemnitee may, at any time after ten (10) days from the date notice of claim is given to the indemnifying party by the indemnitee, resist or otherwise defend the claim or, after consultation with and consent of the indemnifying party, settle or otherwise compromise or pay the claim.

The indemnifying party shall pay all costs of indemnity arising out of or relating to that defense and any such settlement, compromise, or payment. The indemnitee shall keep the indemnifying party fully apprised at all times as to the status of the defense. Following indemnification as provided in this Section, the indemnifying party shall be subrogated to all rights of the indemnitee with respect to the matters for which indemnification has been made.

SECTION 15. DISPUTE RESOLUTION.

Section 15.1. Representatives of Parties. All disputes arising under or in connection with this Agreement shall initially be referred to the Account Representatives. If the Account Representatives are unable to resolve the dispute within five (5) business days after referral of the matter to them, the managers of the Account Representatives shall attempt to resolve the dispute. If, after five (5) days they are unable to resolve the dispute, senior executives of the parties shall attempt to resolve the dispute. If, after five (5) days they are unable to resolve the dispute, the parties shall submit the dispute to the chief executive officers of the parties for resolution. Neither party shall commence legal proceedings with regard to a dispute until completion of the dispute resolution procedures set forth in this Section 15.1, except to the extent necessary to preserve its rights or maintain a superior position.

Section 15.2. Continuity of Performance. During the pendency of the dispute resolution proceedings described in this Article 15, M&I shall continue to provide the Services so long as Customer shall continue to pay all undisputed amounts to M&I in a timely manner.

SECTION 16. REPRESENTATIONS AND WARRANTIES.

Section 16.1. By M&I. M&I represents and warrants that:

A. *Rights.* M&I has the right to provide the Services hereunder, using all computer software required for that purpose.

B. *Organization and Approvals.* M&I is a corporation validly existing and in active status under the laws of the State of Wisconsin. It has all the requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement. The execution, delivery and performance of this Agreement has been duly authorized by M&I and this Agreement is enforceable in accordance with its terms against M&I. No approval, authorization or consent of any governmental or regulatory authorities is required to be obtained or made by M&I in order for M&I to enter into and perform its obligations under this Agreement.

Section 16.2. By Customer. Customer represents and warrants that:

A. *Organization.* It is a corporation validly existing and in good standing under the laws of the state of its incorporation.

B. *Authority.* It has all the requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement. The execution,

delivery and performance of this Agreement has been duly authorized by Customer and this Agreement is enforceable in accordance with its terms against Customer.

C. *Approvals.* No approval, authorization or consent of any governmental or regulatory authorities required to be obtained or made by Customer in order for Customer to enter into and perform its obligations under this Agreement.

SECTION 17. CONFIDENTIALITY AND OWNERSHIP.

Section 17.1. Customer Data. Customer shall remain the sole and exclusive owner of all Customer Data and other Confidential Information (as hereinafter defined), regardless of whether such data is maintained on magnetic tape, magnetic disk, or any other storage or processing device. All such Customer Data and other Confidential Information shall, however, be subject to regulation and examination by the appropriate auditors and regulatory agencies to the same extent as if such information were on Customer's premises. "Customer Data" means any and all data and information of any kind or nature submitted to M&I by Customer, or received by M&I on behalf of Customer, in connection with the Services.

Section 17.2. M&I Systems. Customer acknowledges that it has no rights in any software, systems, documentation, guidelines, procedures and similar related materials or any modifications thereof provided by M&I, except with respect to Customer's use of the same during the Term to process its data.

Section 17.3. Confidential Information. "Confidential Information" of a party shall mean all confidential or proprietary information and documentation of such party, whether or not marked as such, including without limitation with respect to Customer, all Customer Data. Confidential Information shall not include: (i) information which is or becomes publicly available (other than by the person or entity having the obligation of confidentiality) without breach of this Agreement; (ii) information independently developed by the receiving party; (iii) information received from a third party not under a confidentiality obligation to the disclosing party; or (iv) information already in the possession of the receiving party without obligation of confidence at the time first disclosed by the disclosing party. The parties acknowledge and agree that the substance of the negotiations of this Agreement, and the terms of this Agreement are considered Confidential Information subject to the restrictions contained herein. Neither party shall use, copy, sell, transfer, publish, disclose, display, or otherwise make any of the other party's Confidential Information available to any Third Party without the prior written consent of the other.

Section 17.4. Obligations of the Parties. M&I and Customer shall hold the Confidential Information of the other party in confidence and shall not disclose or use such Confidential Information other than for the purposes contemplated by this Agreement, and shall instruct their employees, agents, and contractors to use the same care and discretion with respect to the Confidential Information of the other party or of any Third Party utilized hereunder that M&I and Customer each require with respect to their own most confidential information, but in no event less than a reasonable standard of care, including but not limited to, the utilization of security devices or procedures designed to prevent unauthorized access to such materials. Each party shall instruct its employees, agents, and contractors of its confidentiality obligations

hereunder and not to attempt to circumvent any such security procedures and devices. Each party's obligation under the preceding sentence may be satisfied by the use of its standard form of confidentiality agreement, if the same reasonably accomplishes the purposes here intended. All such Confidential Information shall be distributed only to persons having a need to know such information to perform their duties in conjunction with this Agreement.

Section 17.5. Security. M&I shall be responsible for, and shall establish and maintain safeguards against, any disaster, loss or alteration of the Customer Data in the possession of M&I. Such safeguards shall be no less rigorous than that M&I uses to protect its own data of a similar nature.

SECTION 18. MANAGEMENT OF PROJECT.

Section 18.1. Account Representatives. M&I shall assign a team of qualified individuals to be assigned ("*Account Representatives*") to devote time and effort to management of the Services under this Agreement, consisting of a managing director, client relationship manager, client solutions manager, administrative accounting support, as more fully described in Schedule 18.1 attached hereto and others as necessary. Following March 1, 2000, this arrangement will be reviewed with Customer, and at Customer's option, Customer may request that this team be replaced with a dedicated account manager to Customer.

Section 18.2. Reporting and Meetings. The parties shall mutually agree upon (a) an appropriate set of periodic reports to be issued by M&I to Customer during the Term; and (b) an appropriate set of periodic meetings to be held between selected Account Representatives during the Term. Meetings shall be held to review performance, changes, resource utilization and such other matter as appropriate.

Section 18.3. Development Projects and Technical Support. A. Upon Customer's written request, M&I will develop and provide to Customer a good faith estimate of any additional charges which Customer may incur in connection with the operation of any new software, major modification or enhancements developed by M&I or the acquisition of Third Party software. Customer agrees that M&I will have the opportunity to bid on and be considered for all software development, maintenance and other technology projects related to the Services that Customer wishes to implement. Nothing contained herein shall obligate: (a) M&I to develop enhancements requested by Customer; or (b) for Customer to obtain such services from M&I.

B. For Customer requested enhancements requiring a programming effort in excess of eighty (80) hours, M&I agrees to provide Customer ballpark programming estimates within fifteen (15) business days following receipt of all information necessary to process such request. Detailed programming estimate will be made available to Customer within an additional twenty (20) business days. After Customer's approval of any such detailed estimate, M&I agrees to schedule the development of such enhancement within thirty (30) business days.

C. M&I agrees to disclose to Customer its plans for new product development prior to general release of such information. Customer shall have the opportunity to participate in the development of any such product. Upon completion of such development, Customer may utilize

any such new product on a trial basis under mutually agreeable terms. The fees for any such new product utilized by Customer shall be waived for a period up to ninety (90)days.

SECTION 19. REGULATORY COMPLIANCE.

A. Customer shall be solely responsible for monitoring and interpreting (and for complying with, to the extent such compliance requires no action by M&I) the federal and state laws, rules and regulations pertaining to Customer's business (the "*Legal Requirements*"). Based on Customer's Proper Instructions, M&I shall select the processing parameter settings, features and options (collectively, the "*Parameters*") within M&I's system that will apply to Customer. Customer shall be responsible for determining that such selections are consistent with the Legal Requirements and with the terms and conditions of any agreements between Customer and its clients. In making such determinations, Customer may rely upon the written descriptions of such Parameters contained in the User Manuals. M&I shall perform system processing in accordance with the Parameters.

B. Subject to the foregoing, M&I shall perform an on-going review of federal laws, rules and regulations. M&I shall maintain the features and functions set forth in the User Manuals for each of the Services in accordance with all changes in federal laws, rules and regulations applicable to such features and functions, in a non-custom environment. For any new federal laws, rules and regulations, M&I will perform a business review, with input from M&I's customers and user groups. If M&I elects to support a new federal law, rule or regulation through changes to the M&I Software, M&I shall develop and implement modifications to the Services to enable Customer to comply with such new federal laws, rules and regulations. In all other circumstances relating to regulatory compliance of the Services, including state laws, rules and regulations, the provisions of Section 5.2 above (New Services) shall apply.

C. In any event, M&I shall work with Customer in developing and implementing a suitable procedure or direction to enable Customer to comply with federal and state laws, rules and regulations applicable to the Services being provided by M&I to Customer, including in those instances when M&I has elected to, but it is not commercially practicable to, modify the M&I Software prior to the regulatory deadline for compliance.

SECTION 20. DISASTER RECOVERY.

Section 20.1. Services Continuity Plan. M&I shall maintain throughout the Term of the Agreement a Services Continuity Plan (the "*Plan*") in compliance with applicable regulatory requirements. "*Disaster*" shall have the meaning set forth in the Plan. Review and acceptance of the Plan as may be required by any applicable regulatory agency shall be the responsibility of Customer. M&I shall cooperate with Customer in conducting such reviews as such regulatory agency may from time to time reasonably request. A detailed Executive Summary of the Plan has been provided to Customer. Updates to the Plan shall be provided to Customer without charge.

Section 20.2. Relocation. If appropriate, M&I shall relocate all affected Services to an alternate disaster recovery site as expeditiously as possible after declaration of a Disaster, and shall coordinate with Customer all requisite telecommunications modifications necessary to

achieve full connectivity to the disaster recovery site, in material compliance with all regulatory requirements.

Section 20.3. Resumption of Services. The Plan provides that, in the event of a Disaster, M&I will be able to resume the Services in accordance therewith within the time periods specified in the Plan. In the event M&I is unable to resume the Services to Customer within the time periods specified in the Plan, Customer shall have the right to terminate this Agreement without payment of the Termination Fee upon written notice to M&I delivered within forty-five (45) days after declaration of such Disaster.

Section 20.4. Annual Test. M&I shall test its Plan by conducting one (1) test annually and shall provide Customer with a description of the test results in accordance with applicable laws and regulations. Customer may request to participate in such testing.

SECTION 21. GENERAL TERMS AND CONDITIONS.

Section 21.1. Transmission of Data. The responsibility and expense for transportation and transmission of, and the risk of loss for, data and media transmitted between M&I and Customer shall be borne by Customer. Data lost by M&I following processing, including loss of data transmission, shall either be restored by M&I from its backup media or shall be reprocessed from Customer's backup media at no additional charge to Customer.

Section 21.2. Equipment and Network. Customer shall obtain and maintain at its own expense its own data processing and communications equipment as may be necessary or appropriate to facilitate the proper use and receipt of the Services. Customer shall pay all installation, monthly, and other charges relating to the installation and use of communications lines between Customer's datacenter and the Operations Center. M&I maintains and will continue to maintain a network control center with diagnostic capability to monitor reliability and availability of the communication lines described in the Network Schedule, but M&I shall not be responsible for the continued availability or reliability of such communications lines.

Section 21.3. Reliance on Data. M&I will perform the Services described in this Agreement on the basis of information furnished by Customer. M&I shall be entitled to rely upon any such data, information, or instructions as provided by Customer. If any error results from incorrect input supplied by Customer, Customer shall be responsible for discovering and reporting such error and supplying the data necessary to correct such error to M&I for processing at the earliest possible time.

Section 21.4. Data Backup. Customer shall maintain adequate records including (i) microfilm images of items being transported to M&I or (ii) backup on magnetic tape or other electronic media where transactions are being transmitted to M&I, from which reconstruction of lost or damaged items or data can be made. Customer assumes all responsibility and liability for any loss or damage resulting from failure to maintain such records.

Section 21.5. Balancing and Controls. Customer shall (a) on a daily basis, review all input and output, controls, reports, and documentation, to ensure the integrity of data processed by M&I; and (b) on a daily basis, check exception reports to verify that all file maintenance

entries and nondollar transactions were correctly entered. Customer shall be responsible for initiating timely remedial action to correct any improperly processed data which these reviews disclose.

Section 21.6. Use of Services. Customer assumes exclusive responsibility for the consequences of any Proper Instructions Customer may give M&I, for Customer's failure to properly access the Services in the manner prescribed by M&I, and for Customer's failure to supply accurate input information. Customer agrees that, except as otherwise permitted in this Agreement or in writing by M&I, Customer will use the Services only for its own internal business purposes to service its banking customers and clients and will not sell or otherwise provide, directly or indirectly, any of the Services or any portion thereof to any Third Party.

Section 21.7. Regulatory Assurances. M&I and Customer acknowledge and agree that the performance of these Services will be subject to regulation and examination by Customer's regulatory agencies to the same extent as if such Services were being performed by Customer. Upon request, M&I agrees to provide any appropriate assurances to such agency and agrees to subject itself to any required examination or regulation. Customer agrees to reimburse M&I for reasonable costs actually incurred due to any such examination or regulation that is performed primarily for the purpose of examining Services used by Customer.

A. *Notice Requirements.* Customer shall be responsible for complying with all regulatory notice provisions to any applicable governmental agency, which shall include providing timely and adequate notice to the Chief Examiner of the Federal Home Loan Bank Board, the Office of Thrift Supervision, the Office of the Comptroller of the Currency, The Federal Deposit Insurance Corporation, the Federal Reserve Board, or their successors, as applicable (collectively, the "*Federal Regulators*"), as of the Effective Date of this Agreement, identifying those records to which this Agreement shall apply and the location at which such Services are to be performed.

B. *Examination of Records.* The parties agree that the records maintained and produced under this Agreement shall, at all times, be available at the Operations Center for examination and audit by governmental agencies having jurisdiction over the Customer's business, including any Federal Regulator. The Director of Examinations of any Federal Regulator or his or her designated representative shall have the right to ask for and to receive directly from M&I any reports, summaries, or information contained in or derived from data in the possession of M&I related to the Customer. M&I shall notify Customer as soon as reasonably possible of any formal request by any authorized governmental agency to examine Customer's records maintained by M&I, if M&I is permitted to make such a disclosure to Customer under applicable law or regulations. Customer agrees that M&I is authorized to provide all such described records when formally required to do so by a Federal Regulator.

C. *Audits.* M&I shall cause a Third Party review of the Operations Center and related internal controls, to be conducted annually by its independent auditors. M&I shall provide to Customer, upon written request, one copy of the audit report resulting from such review. Remote datacenters used by M&I in providing some of the Services

shall be reviewed by M&I's internal auditors in accordance with procedures and on a schedule satisfactory to the Federal Regulator responsible for supervision of M&I.

Section 21.8. IRS Filing. Customer represents it has complied with all laws, regulations, procedures, and requirements in attempting to secure correct tax identification numbers (TINS) for Customer's payees and customers and agrees to attest to this compliance by an affidavit provided annually. Customer authorizes M&I to act as Customer's agent and sign on Customer's behalf the Affidavit required by the Internal Revenue Service on Form 4804, or any successor form. Exhibit A (Attorney-in-Fact Appointment) and Exhibit B (Affidavit) shall be executed by Customer contemporaneously with the execution of this Agreement. Customer acknowledges that M&I's execution of the Form 4804 Affidavit on Customer's behalf does not relieve Customer of responsibility to provide accurate TINS or liability for any penalties which may be assessed for failure to comply with TIN requirements.

Section 21.9. Affiliates. Customer agrees that it is responsible for assuring compliance with this Agreement by those Affiliates receiving Services under this Agreement. Customer agrees to be responsible for the submission of its Affiliates' data to M&I for processing and for the transmission to Customer's Affiliates of such data processed by and received from M&I. Customer agrees to pay any and all fees owed under this Agreement for Services rendered to its Affiliates.

Section 21.10. Future Acquisitions. Customer acknowledges that M&I has established the Fee Schedule and enters into this Agreement on the basis of M&I's understanding of the Customer's current need for Services and Customer's anticipated future need for Services as a result of internally generated expansion of its customer base. If the Customer expands its operations by acquiring Control of additional financial institutions or the Customer experiences a Change in Control (as hereinafter defined), the following provisions shall apply:

A. *Acquisition of Additional Entities.* If Customer acquires Control after the date hereof of one or more bank holding companies, banks, savings and loan associations or other financial institutions that are not currently Affiliates, M&I agrees to provide Services for such new Affiliates and such Affiliates shall automatically be included in the definition of "Customer"; *provided* that (a) the conversion of each new Affiliate must be scheduled at a mutually agreeable time, but in any event, M&I will make good faith efforts to effect the conversion of new affiliates to M&I's systems within one hundred twenty (120) days after regulatory approval, (taking into account, among other things, the availability of qualified M&I conversion resources familiar with Customer's operations) and must be completed before M&I has any obligation to provide Services to such new Affiliate; (b) the Customer will be liable for any and all Expenses in connection with the conversion of such new Affiliate; and (c) Customer shall pay conversion fees in an amount to be mutually agreed upon with respect to each new Affiliate.

B. *Change in Control of Customer.* If a Change in Control occurs with respect to Customer, M&I agrees to continue to provide Services under this Agreement; *provided* that (a) M&I's obligation to provide Services shall be limited to the entities comprising the Customer prior to such Change in Control and (b) M&I's obligation to provide Services shall be limited in any and all circumstances to the number of accounts

and items processed in the 3-month period prior to such Change in Control occurring plus 25%.

SECTION 22. MISCELLANEOUS PROVISIONS.

Section 22.1. Governing Law. The validity, construction and interpretation of this Agreement and the rights and duties of the parties hereto shall be governed by the internal laws of the State of Wisconsin, excluding its principles of conflict of laws.

Section 22.2. Entire Agreement; Amendments. This Agreement, together with the exhibits and schedules hereto, constitutes the entire agreement between M&I and the Customer with respect to the subject matter hereof. There are no restrictions, promises, warranties, covenants or undertakings other than those expressly set forth herein and therein. This Agreement supersedes all prior negotiations, agreements, and undertakings between the parties with respect to such matter. This Agreement, including the exhibits and schedules hereto, may be amended only by an instrument in writing executed by the parties or their permitted assignees.

Section 22.3. Assignment. This Agreement may not be assigned by either party, by operation of law or otherwise, without the prior written consent of the other party, which consent shall not be unreasonably withheld, *provided* that (a) M&I's consent need not be obtained in connection with the assignment of this Agreement pursuant to a merger in which Customer is a party and as a result of which the surviving Entity becomes an Affiliate of another bank holding company, bank, savings and loan association or other financial institution, so long as the provisions of Section 21.10 are complied with; and (b) M&I may freely assign this Agreement (i) in connection with a merger, corporate reorganization or sale of all or substantially all of its assets, stock or securities, or (ii) to any Entity which is a successor to the assets or the business of the M&I Data Services division of M&I.

Section 22.4. Relationship of Parties. The performance by M&I of its duties and obligations under this Agreement shall be that of an independent contractor and nothing contained in this Agreement shall create or imply an agency's relationship between Customer and M&I, nor shall this Agreement be deemed to constitute a joint venture or partnership between Customer and M&I.

Section 22.5. Notices. Except as otherwise specified in the Agreement, all notices, requests, approvals, consents and other communications required or permitted under this Agreement shall be in writing and shall be personally delivered or sent by (i) first class U.S. mail, registered or certified, return receipt requested, postage pre-paid; or (ii) U.S. express mail, or other, similar overnight courier service to the address specified below. Notices shall be deemed given on the day actually received by the party to whom the notice is addressed.

In the case of Customer:

First Midwest Bancorp, Inc.
300 Park Blvd., Suite 405
Itasca IL 60143
Attn: Kent Belasco
Chief Information Officer and
Executive Vice President

In the case of M&I:

M&I Data Services
4900 West Brown Deer Road
Brown Deer WI 53223
Attn: Thomas McBride
Vice President
Norrie J. Daroga
Vice President and General Counsel

Section 22.6. Headings. Headings in this Agreement are for reference purposes only and shall not effect the interpretation or meaning of this Agreement.

Section 22.7. Counterparts. This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together constitute one and the same agreement.

Section 22.8. Waiver. No delay or omission by either party to exercise any right or power it has under this Agreement shall impair or be construed as a waiver of such right or power. A waiver by any party of any breach or covenant shall not be construed to be a waiver of any succeeding breach or any other covenant. All waivers must be in writing and signed by the party waiving its rights.

Section 22.9. Severability. If any provision of this Agreement is held by court or arbitrator of competent jurisdiction to be contrary to law, then the remaining provisions of this Agreement will remain in full force and effect. Articles 11, 13 and 17 and Sections 22.1 and 22.17 shall survive the expiration or earlier termination of this Agreement for any reason.

Section 22.10. Attorneys' Fees and Costs. If any legal action is commenced in connection with the enforcement of this Agreement or any instrument or agreement required under this Agreement, the prevailing party shall be entitled to costs, attorneys' fees actually incurred, and necessary disbursements incurred in connection with such action, as determined by the court.

Section 22.11. Financial Statements. M&I agrees to furnish to the Customer copies of the then-current annual report for the Marshall & Ilsley Corporation, within 45 days after such document is made publicly available.

Section 22.12. Publicity. Neither party shall use the other parties' name or trademark or refer to the other party directly or indirectly in any media release, public announcement or public disclosure relating to this Agreement or its subject matter, in any promotional or marketing materials, lists or business presentations, without consent from the other party for each such use or release. Customer agrees that neither it, its directors, officers, employees or agents shall disclose this Agreement or any of the terms or provisions of this Agreement to any other party.

Section 22.13. Solicitation. Neither party shall solicit the employees of the other party during the Term of this Agreement, for any reason.

Section 22.14. No Third Party Beneficiaries. Each party intends that this Agreement shall not benefit, or create any right or cause of action in or on behalf of, any person or entity other than the Customer and M&I.

Section 22.15. Force Majeure. Notwithstanding any provision contained in this Agreement, neither party shall be liable to the other to the extent fulfillment or performance if any terms or provisions of this Agreement is delayed or prevented by revolution or other civil disorders; wars; acts of enemies; strikes; lack of available resources from persons other than parties to this Agreement; labor disputes; electrical equipment or availability failure; fires; floods; acts of God; federal, state or municipal action; statute; ordinance or regulation; or, without limiting the foregoing, any other causes not within its control, and which by the exercise of reasonable diligence it is unable to prevent, whether of the class of causes hereinbefore enumerated or not. This clause shall not apply to the payment of any sums due under this Agreement by either party to the other.

Section 22.16. Construction. M&I and Customer each acknowledge that the limitations and exclusions contained in this Agreement have been the subject of active and complete negotiation between the parties and represent the parties' voluntary agreement based upon the level of risk to Customer and M&I associated with their respective obligations under this Agreement and the payments to be made to M&I and the charges to be incurred by M&I pursuant to this Agreement. The parties agree that the terms and conditions of this Agreement shall not be construed in favor of or against any party by reason of the extent to which any party or its professional advisors participated in the preparation of this document.

Section 22.17. Waiver of Jury Trial. Each of Customer and M&I hereby knowingly, voluntarily and intentionally waives any and all rights it may have to a trial by jury in respect of any litigation based on, or arising out of, under, or in connection with, this Agreement or any course of conduct, course of dealing, statements (whether verbal or written), or actions of M&I or Customer, regardless of the nature of the claim or form of action, written contract or tort, including negligence.

Section 22.18. Showcase. Customer agrees to reasonably make its facilities and personnel available to M&I for the purpose of assisting M&I in the solicitation of M&I's prospective new customers. M&I agrees to provide Customer a credit against data processing charges of two thousand five hundred dollars (\$2,500) for each such prospect.

Section 22.19. Finder's Fee. M&I will provide Customer with a credit which may be used to offset data processing fees for services (excluding telecommunication charges and other pass through charges) in an amount equal to the first month's processing fees for: (i) each of Customer's new affiliates, whose data was not being processed by M&I, but will be processed by M&I under this Agreement; and (ii) for Customer's correspondent or non-affiliated institutions whose data was not being processed by M&I, but will be processed by M&I utilizing remote input processing sites owned by Customer. The Finder's Fee will be payable where initial contact to a financial institution is made by Customer, or a lead generated and developed by Customer, followed by Customer assistance and involvement in the selling process (not limited to Customer site visits, referrals, presentations, etc.) for the purpose of selling M&I Services, and the financial institution signs a processing agreement with M&I. The finder's fee,

as described above, shall be based upon and payable after the first month's use of the ordinary services following the completion of all conversion of the new financial institution as proposed.

Section 22.20. IBS Software Purchase. At any time, Customer has the option of licensing the M&I Software used to process data hereunder from M&I. The license will be provided to Customer at seventy percent (70%) of the single-license market price and on the terms and subject to the conditions, other than price, of M&I's then-current standard license agreement, plus an amount equal to seventy percent (70%) of the single-license market price for any software components not set forth below. The "market price" of the Software is defined as the price at which the software is made generally available for licensing, assuming no changes are made in the form of the Standard Licensing Agreement or in the software licensed. The software components included in the above-stated fees are: Deposits, Loans, Customer Information System, Teller Terminal, and any specially created enhancements undertaken at Customer's request during the term of this Agreement and for which M&I consents at the time of creating such enhancements to, including the enhancement, as part of the licensed software system.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in their names as of the date first above written.

MARSHALL & ILSLEY CORPORATION (“*M&I*”),
acting through its division, M&I DATA
SERVICES

By: /S/ OWEN J. SULLIVAN
Name: Owen J. Sullivan
Title: President
Outsourcing Business Group

By: /S/ THOMAS MCBRIDE
Name: Thomas McBride
Title: Vice President

FIRST MIDWEST BANCORP, INC. (“*Customer*”)

By: /S/ KENT BELASCO
Name: Kent Belasco
Title: Chief Information Officer and
Executive Vice President

Revolving Credit Agreement

First Midwest Bancorp, Inc. (“Customer”) agrees with M&I Marshall & Ilsley Bank (“Lender”) as follows:

1. **Revolving Loans.** Customer requests that Lender lend to Customer from time to time such amounts as Customer may request in accordance with this Agreement (the “Revolving Loans”), and, subject to the terms of this Agreement, Lender agrees to lend such amounts up to the aggregate principal amount of FIFTY MILLION AND 00/100 DOLLARS (\$50,000,000.00) at any time outstanding (the “Revolving Credit Limit”) evidenced by a Line of Credit Note dated April 26, 2004, and any renewals, extensions or modifications thereof. Within the Revolving Credit Limit, Customer may borrow, repay and reborrow under this Agreement. Lender is not obligated to, but may, make Revolving Loans in excess of the Revolving Credit Limit, and in any event Customer is liable for and agrees to pay all Revolving Loans.

The Revolving Loans are also known as (the “Loan(s)”)

2. **Conditions for Loans.** Lender’s obligation to make any Loans is subject to satisfaction of the following conditions:

(a) **Security Documents.** Lender shall have received the following security documents (the “Security Documents”) on form and substance satisfactory to Lender:

(i) Line of Credit Note.

(b) **Authority to Act.** Lender shall have received copies certified by the Secretary of Customer of the Articles of Incorporation and Bylaws of Customer, authorizing the issuance, execution and delivery of this Agreement, the note(s) and the Security Documents, if any, and a certification of the names and titles of the representatives of Customer authorized to sign this Agreement, the note(s) and the Security Documents and to request Loans under this Agreement, together with true signatures of such representatives.

(c) **Proceedings.** All proceedings taken by Customer in connection with the Loans shall be satisfactory to Lender and Lender shall have received copies of all documents reasonably required by it.

3. **Loan Procedures.** Customer may obtain Revolving Loans under this Agreement in writing or by telephone request, specifying the date and the amount of the Revolving Loan. Lender will make the Revolving Loans available to Customer on the same day as requested providing notice is received by 3:00 p.m. on a banking business day.

4. **Representations.** Customer represents and warrants to Lender that on the date of each Loan:

(a) **Purpose of Loans.** All Loans are and will be used solely for business purposes and will not be used for personal, family, household or agricultural purposes.

(b) **Regulation U.** Customer will not use any part of the proceeds of Loans to purchase or carry any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System.

(c) **Authority.** The execution and delivery of this Agreement, the Security Documents, and any note evidencing a Loan, and the performance by Customer of its obligations under this Agreement, the Security Documents and any note evidencing a Loan, are within its power, have been duly authorized by proper action of the part of Customer, are not in violation of any existing law, rule or regulation, any order or decision of any court, the Articles of Incorporation, Bylaws, or other governing documents of Customer, as applicable, or the terms of any agreement or restriction to which Customer is a party or by which it is bound, and do not require the approval or consent of any person or entity. This Agreement, the Security Documents and any note evidencing a Loan when executed and delivered, will constitute the valid and binding obligations of Customer enforceable in accordance with their terms.

(d) **Organization.** Customer is a corporation validly existing under the laws of the State of Illinois and is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of its business or the ownership of its properties required such qualification.

(e) **GAAP.** All financial statements of Customer furnished to Lender were prepared in accordance with Generally Accepted Accounting Principles ("GAAP") consistently applied throughout the periods involving and are correct and complete as of their dates.

(f) **Absence of Litigation.** There is no litigation or administrative proceeding pending or, to the knowledge of Customer, threatened against Customer, which might result in any material adverse change in the business or condition of Customer.

(g) **Hazardous Substances.** (1) There is no substance which has been, is, or will be present, used stored, deposited, treated, recycled or disposed of on, under, in or about any real estate now or at any time owned or occupied by Customer ("Property") during the period of Customer's ownership or use of the property in a form, quantity or manner which, if known to be present on, under, in or about the Property would require clean-up, removal or some other remedial action ("Hazardous Substance") under any federal, state or local laws, regulations, ordinances, codes or rules ("Environmental Laws"), (ii) Customer has no knowledge, after due inquiry, of any prior use or existence of any Hazardous Substance on the Property by any prior owner of or person using the Property, (iii) without limiting the generality of the foregoing, Customer has no knowledge, after due inquiry, that the Property contains asbestos, polychlorinated biphenyl components (PCBs) or underground storage tanks, (iv) there are no conditions existing currently or likely to exist during the term of this Agreement which would subject Customer to any damages, penalties, injunctive relief or clean-up costs in any governmental or regulatory action or third-party claim relating to any Hazardous Substance, (v) Customer is not subject to any court or administrative proceeding, judgment, decree, order or citation relating to any Hazardous Substance, and (vi) Customer in the past has been, at the present is, and in the future will remain in compliance with all Environmental Laws. Customer shall indemnify and hold harmless Lender, its directors, officers, employees and agents from all loss, cost (including reasonable attorneys' fees and legal expenses), liability and damage whatsoever directly or indirectly resulting from, arising out of, or based upon (1) the presence, use, storage, deposit, treatment, recycling or disposal, or the transportation of any Hazardous Substance to or from the Property, at any time, of any Hazardous Substance described above, on, under, in or about the Property, (2) the violation or alleged violation of any Environmental Law, permit, judgment or license relating to the presence, use, storage, deposit, treatment, recycling or disposal of any Hazardous Substance on, under, in or about the Property, or the transportation of any Hazardous Substance to or from the Property, or (3) the imposition of any governmental lien for the recovery of environmental clean-up costs expended under any Environmental Law. Customer shall immediately notify Lender in writing of any governmental or regulatory action or third-party claim instituted or threatened in connection with any Hazardous Substance on, in, under or about the Property.

5. Fees. Customer agrees to pay the following nonrefundable fees as a condition of access to credit under this Agreement:

(a) Commitment fee in an amount equal to 1/16th% per year of the average daily unused portion of the Revolving Credit Limit from the date of this Agreement.

6. Interest. Customer agrees to pay interest to Lender on the unpaid principal balance outstanding from time to time under this Agreement in accordance with any note evidencing a Loan.

The interest rate listed in any note evidencing a Revolving Loan may or may not be the lowest rate charged by Lender. Any change in the interest rate resulting from a change in the interest rate listed in any note evidencing a Revolving Loan shall become effective without notice to Customer as of the day on which such change in the interest rate listed in any note evidencing a Revolving Loan is adopted by Lender. A change in the interest rate will apply both to the outstanding principal balance and to new Revolving Loans.

Unpaid principal and interest bear interest after maturity (whether by acceleration or lapse of time) until paid at the rate which would otherwise be applicable plus 3.00 percentage points. Interest is computed on the basis of the actual number of days the principal balance is unpaid based upon a year of 360 days.

7. Payment Schedule. Customer agrees to pay to Lender the unpaid principal balance and interest in accordance with any note evidencing a Loan.

In addition, Customer shall immediately pay any amount by which the Revolving Loans exceed the Revolving Credit Limit established under Section 1, and any prior unpaid payments. Lender is authorized to automatically charge payments due under this Agreement to any account of Customer with Lender. If payments are not automatically charged to Customer's account, payments must be made to the Lender at its address shown below and are not credited until received in Lender's office. Lender is authorized to make book entries evidencing Revolving Loans and payments under this Agreement and the aggregate unpaid amount of all Revolving Loans as evidenced by those entries is presumptive evidence that those amounts are outstanding and unpaid to Lender.

8. Covenants. Customer shall, so long as any amounts remain unpaid, or Lender has any commitment to make Loans under this Agreement:

(a) **Financial Statements.** Furnish to Lender, as soon as available, such financial information respecting Customer as Lender from time to time requests, and without request furnish to Lender:

(i) Within 120 days after the end of each fiscal year of Customer, a balance sheet of Customer as of the close of such fiscal year and related statements of income and retained earnings and cash flow for such year all in reasonable detail and satisfactory in scope to Lender, prepared in accordance with generally accepted accounting principles applied on a consistent basis, audited by an independent certified public accountant, selected by Customer and acceptable to Lender.

(ii) Within 45 days after the end of each third month, a balance sheet of Customer as of the end of such third month and related statements of income and retained earnings and cash flow for the period from the beginning of the fiscal year to the end of such third month, prepared in accordance with generally accepted accounting principles applied on a consistent basis, certified, subject to normal year-end adjustments, by a financial representative of Customer.

(b) **Inspection of Property and Records.** Keep complete and accurate books of records and accounts and permit any representatives of Lender to examine and copy any of the books and, at the Customer's expense, to visit and inspect any of the Customer's tangible or intangible properties as often as desired.

(c) **Insurance.** Maintain insurance coverage in the forms (together with any lender's loss payable or mortgagee clause requested by Lender), amounts and with companies which would be carried by prudent management in connection with similar properties and businesses, including without limitation: [i] insure all of its physical property against fire and extended coverage risks in amounts and with deductibles at least equal to those generally maintained by businesses engaged in similar activities in similar geographic areas; [ii] maintain all such workers' compensation and similar insurance as may be required by law; and [iii] maintain in amounts and with deductibles at least equal to those generally maintained by businesses engaged in similar activities in similar geographic areas, general public liability insurance against claims for bodily injury, death or property damage occurring on, in or about any property of Customer, business interruption insurance and product liability insurance.

(d) **Dividends.** Not pay or declare any dividend or make any other distribution based upon the stock of Customer (except dividends payable solely in stock of Customer) or make any purchases, redemptions or other acquisitions, direct or indirect, of stock of Customer.

(e) **Acquisitions, Loans, Investments.** Not acquire any other business or make any loans, advances or extensions of credit to, or any investments in, any person or entity except [i] the purchase of United States government bonds and obligations; [ii] extensions of credit to customers in the usual course of business of Customer; [iii] the purchase of bank certificates of deposit and prime rated commercial paper having a maturity not exceeding one year; [iv] deposits in demand and savings account at banks; [v] investments in bank repurchase agreements; and [vi] loans and advances to employees and agents in the ordinary course of business for travel and entertainment expenses and similar items.

(f) **Conduct of Business.** Continue to engage in an efficient and economical manner in a business of the same general type as conducted by it on the date of this Agreement.

(g) **Sale of Notes or Receivables.** Not discount or sell with recourse any of its notes or accounts receivable.

(h) **Restriction of Indebtedness.** Not incur, assume or permit to exist any indebtedness or liability for borrowed money **in excess of \$30,000,000.00** (except obligations under this Agreement) or assume, guarantee, endorse or otherwise become liable for obligations of another **unless subordinated to Lender** (except endorsements of negotiable instruments for deposit or collection in the ordinary course of business).

(i) **Taxes.** Pay and discharge all lawful taxes, assessments and governmental charges upon Customer or against its properties prior to the date on which penalties attach, unless and to the extent only that such taxes, assessments and charges are contested in good faith and by appropriate process by Customer.

(j) **Existence.** Do all things necessary to maintain its existence, to preserve and keep in full force and affect its rights and franchises necessary to continue its business and comply with all applicable laws, regulations and ordinances.

(k) **Financial Covenants.** Timely perform and observe the following financial covenants, all calculated in accordance with generally accepted accounting principles applied on a consistent basis:

(i) Maintain at all times a ratio of Loan Loss Reserve to Total Loans, of not less than 1%, tested quarterly. "Loan Loss Reserves" means subsidiary's allowance for loan and lease losses determined in a manner consistent with that used in preparing Subsidiary's financial statements. "Total Loans" means the sum of loans and direct lease financings, net of unearned income of subsidiary.

(ii) Maintain at all times a ratio of Non-performing Loans to Total Loans, of not greater than 2.5%, tested quarterly. "Non-performing Loans" means loans outstanding which are not accruing interest, have been classified as renegotiated pursuant to guidelines established by the Federal Financial Examination Institution Council or are 90 days or more past due in the payment of principal or interest.

(iii) Maintain at all times an ROAA of not less than 0.90% for two consecutive quarters tested quarterly. "ROAA" means net income divided by average total assets excluding non-recurring charges to expense.

(iv) Maintain well-capitalized ratios, as required by federal regulators.

(v) Customer agrees not to pledge, sell, or otherwise encumber its holding company or bank stock.

(l) **Compliance Certificate.** Furnish to Lender within 30 days after the end of each third calendar month, a Compliance Certificate, in the form of Exhibit A, executed by the Customer's chief financial officer, or

other officer or person acceptable to Lender, certifying that the representations and warranties set forth in this agreement are true and correct as of the date of the certificate and further certifying that, as of the date of the certificate, no Event of Default exists under this Agreement.

(m) **Restriction on Liens.** Not create or permit to exist any lien or encumbrance with respect to Customer's property, except liens in favor of Lender, liens for taxes (if they are being contested in good faith by appropriate proceedings and for which appropriate reserves are maintained and liens or encumbrances permitted under any Security Document.

(n) **Payment Impairment.** Not take any action or permit any event to occur which materially impairs Customer's ability to make payments under this Agreement when due. Such events include, without limitation, the fact that Customer, or any surety for Customer's obligations under this Agreement ceases to exist, dies, or becomes insolvent or the subject of bankruptcy or insolvency proceedings.

(o) **Memorandum of Understanding.** Customer shall not be subject to a "memorandum of understanding", a "cease and desist order" or other regulatory actions that reflect any material adverse change in the safety and soundness of the Customer.

9. Security Interest. This Agreement is secured by all existing and future security agreements, assignments and mortgages from Customer to Lender, from any guarantor of this Agreement to Lender, and from any other person to Lender, providing collateral security for Customer's obligations, and payment of the Loans may be accelerated according to any of them. Unless a lien would be prohibited by law or would render a nontaxable account taxable, Customer also grants to Lender a security interest and lien in any deposit account Customer may at any time have with Lender to secure all debts, obligations and liabilities of Customer under this Agreement. Lender may at any time after the occurrence of an event of default set-off any amount unpaid under this Agreement against any deposit balances or other money now or hereafter owed to Customer by Lender.

10. Default and Acceleration. Upon the occurrence of any one or more of the following events of default: (a) Customer fails to pay any amount when due under this Agreement or under any other instrument evidencing any indebtedness of Customer; (b) any representation or warranty made under this Agreement or information provided by Customer in connection with this Agreement is or was false or fraudulent in any material respect; (c) a material adverse change occurs in Customer's financial condition; (d) Customer fails to timely observe or perform any of the covenants or duties contained in this Agreement; (e) any guaranty of Customer's obligations under this Agreement is revoked or becomes unenforceable for any reason; (f) an event of default occurs under any Security Document; (g) a sale, lease or other disposition of the assets of the Customer occurs, except for sales of inventory in the ordinary course of business; (h) the Customer acquires all or substantially all of the assets or equity interests in any other business enterprise, whether in one or a series of transactions; (i) the Customer merges into or consolidates with any other business enterprise, or another business enterprise merges into the Customer; (j) the Customer enters into any agreement directly or indirectly, to sell or transfer any property, real or personal, used in its business, and thereafter the Customer leases such property, or other property which it intends to use for substantially the same purposes; or (k) any person who owns any of the capital stock of the Customer on the date of this Agreement transfers, sells, gives or otherwise disposes of any of the shares of capital stock of the Customer to any other person (including another person who own any shares of capital stock of the Customer on the date of this Agreement), **then** at Lender's option, and upon notice written or verbal to Customer, Lender's obligation to make Loans under this Agreement shall terminate and the total unpaid balance shall immediately become due and payable without presentment, demand, protest, or further notice of any kind, all which are hereby expressly waived by Customer. Lender's obligation to make Loans under this Agreement shall automatically and immediately terminate and the total unpaid balance shall automatically and immediately become due and payable in the event Customer becomes the subject of bankruptcy or other insolvency proceedings. Lender may waive any default without waiving any other subsequent or prior default. Customer agrees to pay Lender's costs of administration of this Agreement. Customer also agrees to pay all costs of collection before and after judgment, including reasonable attorneys' fees (including those incurred in successful defense or settlement of any counterclaim brought by Customer or incident to any action or proceeding involving Customer brought pursuant to the U.S. Bankruptcy Code).

11. Indemnification. Customer agrees to defend, indemnify and hold harmless Lender, its directors, officers, employees and agents, from and against any and all loss, cost, expense, damage or liability (including

reasonable attorneys' fees) incurred in connection with any claim, counterclaim or proceeding brought as a result of, arising out of, or relating to, any transaction financed or to be financed, in whole or in part, directly or indirectly, with the proceeds of any Loan or the entering into and performance of this Agreement or any document or instrument relating to the Agreement by Lender. This indemnity will survive termination of this Agreement, the repayment of all Loans and the discharge and release of any Security Documents.

12. Venue. To the extent not prohibited by law, venue for any legal proceeding relating to enforcement of this Agreement shall be, at Lender's option, the county in which Lender has its principal office in the State of Illinois, the county in which Customer resides, or the county in which this Agreement was executed by Customer.

13. Termination. Unless sooner termination by Customer's default, Customer's right to obtain Revolving Loans and Lender's obligation to extend the credit under this Agreement shall terminate on the date of the Line of Credit Note is due by maturity (the "Termination Date").

14. Amendment. No amendment, modification, termination or waiver of any provision of this Agreement, nor consent to any departure by Customer from any provision of this Agreement shall in any event be effective unless it is in writing and signed by Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purposes for which given.

15. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

16. Entire Agreement. This Agreement, including the Exhibits attached to it and the Security Documents and any note evidencing a Loan, is intended by Customer and Lender as a final expression of this Agreement and as a complete and exclusive statement of its terms, there being no conditions to the full effectiveness of this Agreement except as set forth in this Agreement.

17. No Waiver; Remedies. No failure on the part of Lender to exercise, and no delay in exercising, any right, power or remedy under this Agreement shall operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any right under this Agreement preclude any other or further exercise of the right or the exercise of any other right. The remedies provided in this Agreement are cumulative and not exclusive of any remedies provided by law.

18. Waiver of Jury Trial. The Customer and the Lender hereby jointly and severally waive any and all right to trial by jury in any action or proceeding relating to this Agreement, any note, any of the Security Documents, or any other document delivered hereunder or in connection herewith, or any transaction arising from or connected to any of the foregoing. The Customer and the Lender each represent that this waiver is knowingly, willingly and voluntarily given.

19. Notice. Except as otherwise provided in this Agreement, all notices required or provided for under this Agreement shall be in writing and mailed, sent or delivered, if to Customer, at its address as shown below, and if to Lender, at its address shown below, or, as to each party, at such other address as shall be designated by such party in a written notice to the other party. All such notices shall be deemed duly given when delivered by hand, or three (3) business days after being deposited in the mail, postage prepaid, provided that notice to Lender pursuant to Section 14 shall not be effective until received by Lender.

20. Name/Address. Customer's name and address are shown below. Customer shall immediately notify Lender in writing of any change in its name or address.

21. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Lender and Customer and their respective heirs, personal representatives, successors and assigns except that Customer may not assign or transfer any of Customer's rights under this Agreement without the prior written consent of Lender.

22. Interpretation. The validity, construction and enforcement of this Agreement are governed by the laws of the State of Illinois. Invalidity of any provision of this Agreement shall not affect the validity of any other provision of this Agreement.

23. Preparation Fees. Customer shall reimburse the Lender for all costs incurred in connection herewith including the following: Uniform Commercial Code searches, recording fees, express mail charges, appraisals, credit reports, real estate searches, title insurance, attorneys' fees, costs of collection and similar costs and expenses.

24. Participations. The Customer agrees that the Lender may at its option, sell to another financial institution or institutions an interest in any Loan and, in connection with such sale, and thereafter, disclose to the purchaser of such interest any information concerning Customer.

25. Ambiguity. In the case of any ambiguity or conflict between this Agreement, any note evidencing a Loan, or any Security Document, this Agreement will govern.

Dated as of April 26, 2004

M&I Marshall & Ilsley Bank

First Midwest Bancorp, Inc.

By: /s/ JOHN J. KADLAC
Title: Vice President

By: /s/ JAMES P. HOTCHKISS
Title: EVP & TREASURER

By: /s/ P.D. KOEPL
Title: Senior Vice President

By: MICHAEL L. SCUDDER
Title: EVP & CFO

770 North Water Street
Milwaukee, Wisconsin 53202

300 Park Blvd., Suite 405
Itasca, IL 60143-0459

“Date”

COMPLIANCE CERTIFICATE

M&I Marshall & Ilsley Bank
777 North Water Street
Milwaukee, Wisconsin 53202

Re: First Midwest Bancorp, Inc.

Ladies and Gentlemen:

This Compliance Certificate is delivered to you pursuant to the terms of the Revolving Credit Agreement dated as of April 26, 2004, as amended from time to time (the “Revolving Credit Agreement”), between First Midwest Bancorp, Inc. (the “Company”) and M&I Marshall & Ilsley Bank (“M&I”). Capitalized terms used herein and not otherwise defined shall have the meanings assigned to them in the Revolving Credit Agreement.

The undersigned hereby represents and warrants to M&I that:

1. The undersigned is an officer of the Company and is duly authorized to execute and deliver this Compliance Certificate.
2. The representations and warranties of the Company contained in the Revolving Credit Agreement are true and accurate on and as of the date of this Compliance Certificate.
3. No Default or Event of Default under the Revolving Credit Agreement has occurred and is continuing.
4. Enclosed with this certificate is the Quarterly Report on Form 10-Q or the Annual Report on Form 10-K described in Section 8(a)(i) or 8(a)(ii) of the Revolving Credit Agreement for the quarter [or: year] ended “date” (the “Financials”). To the best of our knowledge, the Financials are accurate and complete in all material respects, were prepared in accordance with accounting principles generally accepted in the United States, and fairly present the financial condition and results of operations of the Company and its Subsidiaries as of the date of, and for the period covered by, the Financials subject to audit and normal year-end adjustments.
5. As of the end of the quarter preceding the date hereof:

	<u>Covenants</u>	<u>Actual</u>
A. Minimum ROA <i>(measured quarterly)</i>	<u>0.90%</u>	_____
B. Maximum Nonperforming Loans to Total Loans <i>(measured quarterly)</i>		
Nonperforming Loans _____		
Total Loans _____		
Nonperforming Loans to Total Loans	<u>2.50%</u>	_____
C. Minimum Nonperforming Loans to Total Loans <i>(measured quarterly)</i>		
Loan Loss Reserve _____		
Nonperforming Loans _____		
Loan Loss Reserve to Total Loans	<u>1.00%</u>	_____

Dated: _____

FIRST MIDWEST BANCORP, INC.

By: _____

Title: _____

LINE OF CREDIT NOTE

\$50,000,000.00

Milwaukee, Wisconsin
April 26, 2004

FOR VALUE RECEIVED, FIRST MIDWEST BANCORP, INC., a Delaware corporation (the "Company"), hereby promises to pay to the order of **M&I MARSHALL & ILSLEY BANK ("M&I")**, the principal sum of **FIFTY MILLION DOLLARS (\$50,000,000.00)**, or such lesser amount of loans which remain outstanding under this Revolving Credit Agreement, on April 26, 2004, together with interest as set forth below.

The unpaid principal shall bear interest from the date hereof until paid at an annual rate, computed on the basis of a 360-day year, as provided in the Revolving Credit Agreement referenced below. Interest accrued on the outstanding balance shall be payable on the first day of each calendar quarter until the outstanding principal balance is repaid in full, with all accrued interest paid with the final payment of principal.

In the event that any amount of the principal of, or interest on, this Note is not paid when due (whether at stated maturity, by acceleration or otherwise), the entire principal amount outstanding under this Note shall bear interest, in addition to the interest otherwise payable hereunder, at an annual rate of two percent (2%) from the day following the due date until all such overdue amounts have been paid in full.

Payments of principal, interest and other amounts due hereunder are to be made in lawful money of the United States of America to M&I at 770 N. Water Street, Milwaukee, Wisconsin 53203, Attention: Correspondent Banking, or at such other place as the holder shall designate in writing to the Company.

The maker and all endorsers hereby severally waive presentment for payment, protest and demand, notice of protest, demand and of dishonor and nonpayment of this Note. The Company hereby agrees to pay all reasonable fees and expenses incurred by M&I or any subsequent holder, including the reasonable fees of counsel, in connection with the protection and enforcement of the rights of M&I or any subsequent holder under this Note, including without limitation the collection of any amounts due under this Note and the protection and enforcement of such rights (before or after judgement) in any bankruptcy, reorganization or insolvency proceeding involving the Company.

This Note constitutes the Line of Credit Note issued pursuant to a Revolving Credit Agreement (the "Revolving Credit Agreement") dated as of April 26, 2004, and subsequently amended from time to time, by and between M&I and the Company, to which Revolving Credit Agreement reference is hereby made for a statement of the terms and conditions under which the Line of Credit Loans evidenced hereby may be made and a description of the terms and conditions upon which this Note may be prepaid in whole or in part. This Note supercedes the previous Amendments. In case an Event of Default, as defined in the Revolving Credit Agreement, shall occur, the entire unpaid principal and accrued interest may be automatically due and payable or may be declared due and payable as provided in the Revolving Credit Agreement.

This note shall be governed by, and construed and interpreted in accordance with, the laws of the State of Wisconsin applicable to contracts made and wholly performed with such state.

First Midwest Bancorp, Inc.

By: /s/ JAMES P. HOTCHKISS

Name: JAMES P. HOTCHKISS

Title: EVP & TREASURER

Attest: /s/ MICHAEL L. SCUDDER

Name: Mike Scudder

Title: EVP & CFO

**ONE MONTH LIBOR ADDENDUM
TO REVOLVING BUSINESS NOTE**

This note bears interest on the unpaid principal balance before maturity at an annual rate equal to the **One Month LIBOR Rate** (as defined below) **plus .55%** (percentage points), which rate will change as of the first day of each month.

“**One Month LIBOR Rate**” means the annual rate equal to the rate at which U.S. dollar deposits are offered on the first day of each calendar month on or about 9 a.m., Milwaukee, Wisconsin time as determined by the British Bankers Association (BBA LIBOR) and reported by a major news service selected by Lender (such as Reuters, Bloomberg or Moneyline Telerate).

If BBA LIBOR for the one month period is not provided or reported on the first day of a month because, for example, it is a weekend or holiday or for another reason, the One Month LIBOR Rate shall be established as of the preceding day on which a BBA LIBOR rate is provided for a one month period and reported by the selected news service.

Dated: April 27, 2004

First Midwest Bancorp, Inc.

By: /s/ JAMES P. HOTCHKISS

Title: EVP & TREASURER

By: /s/ MICHAEL L. SCUDDER

Title: EVP & CFO

ACCEPTED: M&I MARSHALL & ILSLEY BANK

By: /S/ JOHN J. KADLAC

John J. Kadlac, Vice President

770 North Water Street
Milwaukee, Wisconsin 53202

Acct#8446592Note#10000

**ACKNOWLEDGEMENT OF INDEPENDENT
REGISTERED ACCOUNTING FIRM**

The Board of Directors
First Midwest Bancorp, Inc.:

We are aware of the incorporation by reference in the following Registration Statements of our report dated July 20, 2004 relating to the unaudited consolidated interim financial statements of First Midwest Bancorp, Inc. that are included in its Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004.

- Registration Statement (Form S-3 No. 33-20439) pertaining to the First Midwest Bancorp, Inc. Dividend Reinvestment and Stock Purchase Plan
- Registration Statement (Form S-4 No. 333-114406) pertaining to First Midwest Capital Trust I
- Registration Statement (Form S-8 No. 33-25136) pertaining to the First Midwest Bancorp, Inc Savings and Profit Sharing Plan
- Registration Statement (Form S-8 No. 33-42980) pertaining to the First Midwest Bancorp, Inc. 1989 Omnibus Stock and Incentive Plan
- Registration Statement (Form S-8 No. 333-42273) pertaining to the First Midwest Bancorp, Inc. 1989 Omnibus Stock and Incentive Plan
- Registration Statement (Form S-8 No. 333-61090) pertaining to the First Midwest Bancorp, Inc. 1989 Omnibus Stock and Incentive Plan
- Registration Statement (Form S-8 No. 333-50140) pertaining to the First Midwest Bancorp, Inc. Non-employee Director Stock Option Plan
- Registration Statement (Form S-8 No. 333-63095) pertaining to the First Midwest Bancorp, Inc. Non-employee Director Stock Option Plan
- Registration Statement (Form S-8 No. 333-63097) pertaining to the First Midwest Bancorp, Inc. Nonqualified Retirement Plan

/s/ Ernst & Young LLP

Chicago, Illinois

August 9, 2004

CERTIFICATIONS

I, John M. O'Meara, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Midwest Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/ JOHN M. O'MEARA

[Signature]

President and
Chief Executive Officer

CERTIFICATIONS

I, Michael L. Scudder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Midwest Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2004

/s/ MICHAEL L. SCUDDER

[Signature]

Executive Vice President,
Chief Financial Officer and
Principal Accounting Officer

Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned officer of First Midwest Bancorp, Inc. (the "Company"), hereby certifies that:

- (1) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN M. O'MEARA

Name: John M. O'Meara

Title: President and Chief Executive Officer

Dated: August 9, 2004

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, the undersigned officer of First Midwest Bancorp, Inc. (the "Company"), hereby certifies that:

- (1) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities and Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL L. SCUDDER

Name: Michael L. Scudder

Title: Executive Vice President, Chief
Financial Officer and Principal
Accounting Officer

Dated: August 9, 2004

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Report of Independent Registered Public Accounting Firm

The Board of Directors
First Midwest Bancorp, Inc.:

We have reviewed the accompanying Consolidated Statements of Condition of First Midwest Bancorp, Inc. and subsidiaries as of June 30, 2004, the related Consolidated Statements of Income for the quarters and six months ended June 30, 2004 and 2003, and the Consolidated Statements of Cash Flows and Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2004 and 2003. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Statement of Condition of First Midwest Bancorp, Inc. as of December 31, 2003, and the related Consolidated Statements of Income, Stockholders' Equity, and Cash Flows for the year then ended (not presented herein); and in our report dated January 20, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying Consolidated Statement of Condition as of December 31, 2003, is fairly stated, in all material respects, in relation to the Consolidated Statement of Condition from which it has been derived.

/s/ Ernst & Young LLP

Chicago, Illinois
July 20, 2004